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EU and international issues

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Scotland analysis: EU and international issues

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Executive summary

In September 2014 people in Scotland will take one of the most important decisions in the history of Scotland and the whole of the United Kingdom (UK) – whether to stay in the UK, or leave it and become a new, separate and independent state.

In advance of the referendum, the UK Government will ensure that the debate is properly informed by analysis, and that the facts that are crucial to considering Scotland's future are set out.

While there are many precedents for parts of nation states forming new states, there are few concerning such long-standing, successful and established states as the UK; and there is none concerning a part of a Member State of the European Union (EU).

Independent legal opinion sought and published by the UK Government in the first paper in this series clarified that in the event of Scotland becoming a new, independent state, the rest of the UK would continue as before, retaining the rights and obligations of the UK as it currently stands, and its membership of international organisations and institutions would continue on existing terms.[1]

In the event of a vote for independence, in the eyes of the world and in law, Scotland would become an entirely new state.[2] An independent Scottish state would have to start afresh in terms of its formal alliances and links with every other sovereign state, including the UK.

When a new state comes into existence, it is of fundamental importance that it is recognised by other states. Recognition is a formal, political act, with important legal effects.[3] The UK's membership of key international organisations and involvement in treaties would be largely unaffected by Scottish independence. The UK would no longer have any obligation to represent Scottish interests as it currently does.

As a new state, an independent Scotland would have to apply for membership of the international institutions and organisations it both wished and was eligible to join. In some cases this would be straightforward; in others, notably the EU, it would not. An independent Scottish state would not be eligible to join the United Nations Security Council as a permanent member, nor would it be likely to have single state representation at the G7, G8 and G20. At some of the key bodies of

1 *Scotland analysis: Devolution and the implications of Scottish independence*, HM Government, February 2013

2 *Scotland analysis: Devolution and the implications of Scottish independence,* HM Government, February 2013, page 8

3 *Scotland analysis: Devolution and the implications of Scottish independence,* HM Government, February 2013, page 33

global governance, representation of an independent Scottish state would be likely to be through alliances with other countries, rather than in its own right as is the case with the UK.

This paper sets out how people and businesses in Scotland are served by the UK's foreign policy, its diplomatic network and its international relationships, and therefore the continuing benefits and advantages they will enjoy through Scotland remaining part of the UK.

The UK delivers for Scotland at an international level

The UK has a unique and historic role in world affairs. It has a range of international interests that it pursues on behalf of all its citizens, including enhancing the UK's security and prosperity and promoting its shared values. People in Scotland benefit from the UK's international networks and influence on the world stage, while having a devolved government in Edinburgh that is able to pursue the international aspects of its policies for Scotland alongside, and with the support of, the UK Government.

The UK's diplomatic global network represents Scotland worldwide, employing over 14,000 people in 267 Embassies, High Commissions, Consulates and other offices in 154 countries and 12 Overseas Territories around the world. The costs of developing an international Scottish diplomatic network to replicate the quality of the representation currently provided by the UK, as the Scottish Government has stated it intends to do, would be a significant financial burden to the Scottish taxpayer without replacing the reach and access currently provided by the UK.

The UK works internationally to promote and protect the economic interests of businesses based in Scotland – for example defending Scotch whisky against counterfeits, discriminatory or excessive taxation, trade barriers and other restrictions. Scottish businesses benefit from the active support of UK Trade & Investment's (UKTI's) 169 offices in over 100 countries. Businesses in an independent Scottish state would lose access to the UKTI network and the political weight the UK can bring to champion them.

Scotland benefits from and contributes to the UK's bilateral relationships and its representation in multilateral organisations, including the North Atlantic Treaty Organization (NATO), the United Nations (UN) and the EU. While an independent Scottish state would develop its own relationships and international identity, its influence could be diminished and it would be likely to become more dependent on alliances with other states. The UK would have no obligation, as it does now, to negotiate for and deliver on Scotland's interests.

Scotland also benefits from the UK's status as a 'soft power superpower'. The British Council facilitated 1,000 international school partnership projects in Scotland in 2012; and the UK's international scholarship programmes, such as Chevening, bring many scholars to Scottish universities, generating significant income for those universities.

In Chapter 6 of its White Paper, the Scottish Government suggested that Scotland holds international priorities and values that are distinct from the rest of the UK, with greater emphasis placed on international justice and peace. This is not borne out by evidence. The UK has played a leading role in strengthening the rule of law, supporting democracy and protecting human rights around the world. From the campaign against the slave trade in the early 18th century, to the drafting of the European Convention on Human Rights in the 1950s, and the creation of the UN Human Rights Council in 2006, the UK has been the driving force behind many advances in this area. More recently, the UK launched an initiative on preventing sexual violence in conflict and used the platform created by the UK's Presidency of the G8 in 2013, as well as the UN, to secure commitments from international partners to tackle this. The UK takes a leading role in the fight against poverty and is the world's second largest aid donor, and was on target to be the first G8 country to spend 0.7 per cent of Gross National Income on aid from 2013. Humanitarian values are shared by people in the rest of the UK. Scotland, as a part of the UK, has the tools to exert the influence required and gain the access needed to further its humanitarian interests.

The EU

The UK uses its influence on behalf of Scotland on a whole host of issues of particular interest to people and businesses in Scotland, such as budget contributions, fisheries, agricultural subsidies and Structural Funds. Scotland benefits from this and from the UK's strong voice in Europe where it contributes to and participates in discussions and negotiations from its position within the UK.

- The UK currently has the equal highest number of votes in the Council (29) and the third largest European Parliament delegation (73 MEPs). Voting weights within the Council will change in 2014 to reflect directly Member States' population size, which will reduce the current over-weighting for smaller Member States. As a result, the UK and other large Member States will have comparatively greater weight than they do now.
- Some recent examples of specific gains with particular impact in Scotland include:
  - The UK Government has secured 'Hague Preferences', allowing Scottish fishermen to benefit from higher quota shares.
  - Despite fierce opposition, the UK Government fought hard and successfully secured protection for Scottish salmon from unfair trade from imported Norwegian salmon, through anti-dumping and safeguarding measures.
  - In negotiations on the EU's Third Energy Package, the UK Government secured a special provision for energy companies based in Scotland to enable them to comply with European legislation without needing to sell off parts of their business.

The EU is a treaty-based organisation and the UK – not Scotland – is the contracting party to the Treaties of the EU. Independent legal opinion sought and published by the UK Government indicates that, as the remainder of the UK would be the same state as the existing UK with the same international rights and obligations, its EU membership would continue on existing terms in the event of Scottish independence. That includes the important opt-outs the UK has secured, allowing it to keep the pound and control of its borders and immigration policy, as well as a rebate from the EU budget, which is worth over £3 billion to the UK each year.

By contrast, since an independent Scotland would be a new state there is a strong case that it would have to go through some form of accession process to become a member of the EU. It would also have to enter into negotiations on the terms of its membership. It cannot be assumed that Scotland would be able to negotiate the favourable terms of EU membership which the UK enjoys. All new EU Member States have been required to commit to joining both the euro and the Schengen area. The Scottish Government's stated intention to retain the pound and join the Common Travel Area is at odds with the EU's rules for new members, and is not in the Scottish Government's gift.[4] Some Member States may be unwilling to grant special opt-outs to Scotland on measures which they have had to adopt themselves. Others have their own independence movements to consider, which will influence how they view Scotland's membership of the EU. Scotland's negotiations to join the EU could be complex and long. It could not be guaranteed that an independent Scottish state's negotiations would be completed within the current Scottish Government's stated 18-month timeframe for joining the EU.

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[4] *Scotland's Future: Your guide to an independent Scotland*, Scottish Government White Paper, November 2013

The EU budget

As part of any accession process, an independent Scottish state would need to negotiate the terms under which it contributes to, and accesses funds from, the EU budget. To illustrate the implications of independence, the impacts of three scenarios have been considered over the course of 2014–20.

In respect of contributions to the EU budget, Scottish taxpayers currently derive a substantial benefit from the UK's rebate. However, given the negotiating realities of the EU, it would be extremely difficult for an independent Scottish state to secure its own budgetary correction on accession (something no other Member State has ever done). Furthermore, it is inconceivable that an independent Scottish state would secure a correction as substantial as the UK rebate. Instead, as a new Member State it would have to contribute to the UK rebate like other Member States. Without a budgetary correction, it is estimated that an independent Scottish state would contribute a total of around €12.9 billion to the EU budget over the next Multiannual Financial Framework (MFF). This is around €2.9 billion higher (€1,100 more per household) over 2014–20 than if Scotland continues to be part of the UK.

Following recent decisions by the UK Government on intra-UK allocations of EU budget receipts for 2014–20, Scotland will receive €228 million more in Structural Funds than if it were an independent state. On the Common Agricultural Policy (CAP) an independent Scottish state's receipts are uncertain and would depend on the terms of accession, which would have to be agreed by all 28 Member States. Scotland has been allocated €3.6 billion in Pillar 1 CAP receipts for 2014–20, and the Scottish Government has claimed that an already independent Scottish state would be receiving direct payments of €196 per hectare by 2020, increasing its allocation in real terms by €950 million over 2014–20.

However, the key question is what would happen to Scottish CAP receipts if it were to become an independent Member State of the EU. With the EU budget ceilings agreed to 2020, any increase in Scottish CAP receipts would be at the expense of other Member States, all of which would need to agree to Scottish accession. There is also a risk that an independent Scottish state would be required to phase in receipts, in line with recent accessions. Given all the uncertainties, this paper considers two independence scenarios over 2014–20 in respect of the EU budget – one where CAP receipts increase by €950 million compared with Scottish receipts within the UK, and one where they fall by €1.2 billion.

Even under the most optimistic receipts scenario from the perspective of an independent Scottish state, the total impact of different levels of receipts is dwarfed by the impact of losing the benefit arising from the UK rebate. Under the most optimistic scenario for CAP receipts, an independent Scottish state's net contribution would be at least around €2.2 billion (€840 per household) worse over 2014–20 than as part of the UK. Under less optimistic scenarios, an independent Scottish state could see its CAP (and total) receipts fall substantially, with the deterioration in net contributions over 2014–20 rising to as much as €4.3 billion (€1,650 per household) compared with Scotland being part of the UK.

The Scottish Government's position, that the UK rebate could be 'shared' on the basis of bilateral negotiations between the UK and an independent Scottish state without re-opening the 2014–20 EU budget, misunderstands the nature of the rebate.[5]

The UK rebate is not a constant, annual lump sum amount that can be divided or shared. It is a function of the UK's respective shares in the EU economy and receipts. Any change in the size of the UK economy and receipts (for example as a result of Scottish independence) would be automatically reflected in the rebate calculation, with the new amount relating to the continuing

5 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

UK excluding Scotland. There would be no 'Scottish share' of the UK rebate left. For it to be otherwise would require a change to the rules relating to budgetary corrections such as the UK rebate. This would need the unanimous agreement of all Member States.

Conclusion

The analysis in this paper shows how Scotland benefits from the UK's historic role and presence in world affairs, and how the UK promotes and protects Scotland's interests globally.

This paper sets out the clear benefits to Scotland as part of the UK of how the size and reach of the UK's diplomatic network delivers for Scottish interests. It highlights the expense to taxpayers in Scotland of establishing and maintaining a separate Scottish diplomatic network, and that access to some UK services, such as international support for Scottish businesses, would cease.

The terms of EU membership which the Scottish Government has said it wishes to secure is at odds with long-established conditions of EU accession; the problematic nature of some of the specific asks that the Scottish Government has said it intends to make may well render negotiations complex and lengthy, raising questions over whether they could be completed within the 18-month timeframe suggested by the Scottish Government. Terms of EU membership also require the unanimous agreement of all 28 Member States.

Scotland would lose out financially in EU funding as an independent Member State of the EU. It would receive less in Structural Funds during 2014–20, and lose the benefit of the UK's rebate. Scotland would, instead, have to contribute to the UK's rebate like other Member States. Ultimately, Scotland's taxpayers would pay significantly more to the EU than they do now.

Crucially, formal independence is likely to mean greater dependence on larger states, such as the continuing UK, and through alliances with other countries.

At present, people in Scotland have an absolute entitlement to international representation provided by the UK Government. In the event of a vote for independence, Scotland's taxpayers would be likely – because of start-up and running costs – to have to pay more for their international representation, and the UK would no longer have any obligation to represent Scottish interests on the international stage. While an independent Scottish state and the continuing UK may choose to cooperate on issues of mutual interest, this cooperation could not be guaranteed.

Introduction

Scotland has played a prominent role in the world throughout its history. Its people have travelled to all corners of the globe, taking its culture and its reputation with them. Its companies trade internationally, and people from across the world visit Scotland every year. For 300 years, Scotland has shared a global outlook with the rest of the United Kingdom (UK), and its people are an integral part of the UK's international effort. The UK Government believes that Scotland is better off as part of the UK, and that the UK is stronger with Scotland in it.

The referendum on independence presents one of the most important decision points in both Scotland's and the rest of the UK's history. It is important that the debate ahead of the referendum is informed by wider analysis, and that the facts that are crucial to considering Scotland's future are set out.

Not all of the answers can be known in advance of the referendum. This is because some of the details can only be established through negotiations between the representatives of an independent Scottish state, the continuing UK and other bodies, for example the European Union (EU). These negotiations would have to take place in the event of a vote for Scottish independence.

The objective of the UK Government's Scotland analysis programme is to provide comprehensive and detailed analysis of Scotland's place in the UK and how that would be affected by independence. The outputs of this analysis will provide sources of information and aim to enhance understanding on the key issues relating to the referendum. As such, the programme should be a major contribution to the independence debate.

The first paper in the series, *Scotland analysis: Devolution and the implications of independence*, set out in detail the UK Government's position, and the legal opinion informing it, on the standing of a newly independent Scottish state in international law. The expert legal opinion in the paper made clear that in international law Scotland would be considered an entirely new state in the event of a vote in favour of leaving the UK, with the rest of the UK continuing the UK's legal personality. This would mean that the UK's membership of key organisations (including the EU, the North Atlantic Treaty Organization (NATO), the International Monetary Fund (IMF), G8 and G20) and involvement in treaties would be largely unaffected by Scottish independence; whereas, as a new state, an independent Scotland would be required to apply and negotiate to become a member of whichever international organisations it wished to join. The paper also argued that the UK's key national institutions, including its diplomatic, consular and trade promotion services, would operate on behalf of the continuing UK as before, but would have no power to act in or on behalf of an independent Scottish state, and no obligation to create the structures to do so.[1] This paper follows both these core arguments.

[1] *Scotland analysis: Devolution and the implications of Scottish independence*, HM Government, February 2013

The scope of this paper

This is the ninth paper in the Scotland analysis programme. It presents the UK Government's analysis of the international implications of the debate on Scottish independence. It considers how the UK Government's international policy is formed, and reviews the UK's international interests in making Britain more secure and prosperous, keeping its citizens safe when they travel, and helping its companies trade with the rest of the world on the best possible terms. It looks at the role the UK plays in making the world a better place, combating poverty and the abuse of human rights. It considers how the UK's global diplomatic network and its 'soft power' – its brand, reputation or attractiveness in other societies – help it achieve these objectives. It considers in depth the issue of an independent Scottish state's EU membership, including the issues that would be important in a membership negotiation and the likely impact on Scotland's contributions to the EU budget.

Although not the focus of this paper, the UK's relationship with the EU is relevant to the debate. The UK Government's position is that it wants the UK to remain part of a reformed EU. The UK Government is setting out a positive vision for a reformed EU which is more competitive, more flexible and more democratically accountable. The UK Government has secured and will continue to secure reform in the EU that is in the best interests of all Member States and people in the UK. In 2013, for instance, the UK Government secured important reforms to the Common Fisheries Policy to abolish the policy of 'discarding' caught fish, which will benefit Scottish fisheries for years to come. The UK Government also negotiated the first real cut to the EU's multiannual budget, and the first ever exemption of micro-businesses from new EU proposals from 1 January 2013.[2]

The need for EU reform is widely accepted. The UK is working closely with other Member States such as Germany, Ireland, the Netherlands, Sweden and others on how to take ideas for reform forward. The First Minister of Scotland has also recognised that "there are clearly areas where the EU needs to reform".[3] The UK, as one of the largest EU Member States, is likely to be better placed to secure EU reform for the benefit of the whole of the UK, as well as other EU Member States, than an independent Scottish state would be as an applicant to or new Member State of the EU.

Devolution and foreign affairs

International relations are conducted between sovereign states, which are equal in the eyes of international law. In even the most decentralised state structures, foreign affairs and defence are therefore reserved for the central government. International relations, including relations with the EU and other international organisations and international development assistance, are reserved to the UK Government under the terms of the legislation which created the Scottish Parliament and Government.[4] This means that the UK Government, as government of the sovereign state, represents the people of the UK on the world stage.

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2 *Businesses in Scotland 2013* published by the Scottish Government in October 2013 states: "As at March 2013, there were an estimated 343,105 private sector enterprises operating in Scotland. Almost all of these enterprises (98.3%) were small (0 to 49 employees); 3,705 (1.1%) were medium-sized (50 to 249 employees) and 2,270 (0.7%) were large (250 or more employees)." See: www.scotland.gov.uk/Resource/0043/00437279.pdf

3 The First Minister of Scotland, Alex Salmond in his speech of 21 August 2013: http://news.scotland.gov.uk/Speeches-Briefings/Speech-at-Hawick-Summer-Cabinet-on-SoundCloud-34d.aspx

4 Scotland Act 1998, Chapter 46, Schedule 5, paragraph 7

International relations impact on many aspects of domestic policy, particularly in the economic sphere. In these areas (e.g. trade promotion or fisheries agreements) the Scottish Government has responsibility for policy as it affects Scotland, and the UK and Scottish Governments work closely together to promote the interests of people and businesses in Scotland at EU and international level.

The UK's constitutional arrangements mean that people in Scotland benefit from the UK's strength on the world stage, while having a devolved government in Edinburgh that is able to pursue the international aspects of its policies for Scotland alongside, and with the support of, the UK Government. The Scottish Government's International Framework document sets out its aims in promoting Scotland as a destination for investment, trade, education and tourism, working with priority countries such as Canada, the United States, China, India and Pakistan; and the activities of Scottish Development International and UK Trade & Investment, and of the Scottish Government's development programme in Malawi and the UK's Department for International Development, mutually reinforce each other.[5]

British diplomatic missions worldwide support Scottish Government Ministers and officials when they travel overseas in pursuit of their devolved policy responsibilities, providing logistical and political assistance and securing them access to the people they need to speak to. Some also include Scottish Government officials on their diplomatic staff. All British diplomatic missions routinely promote Scotland's International interests and the Scottish brand, as well as those of the other nations of the UK. The Scottish Government's International Framework document acknowledges the importance of the UK Government's representation overseas in delivering for Scotland as part of the UK: *"We will continue to make full use of the UK resources at our disposal. In particular, we will work with the Foreign and Commonwealth Office network and UK Trade and Investment around the world to maximise business, cultural and educational opportunities for Scotland. We will also engage directly with the British Council, so that we can effectively showcase Scotland's cultural and educational excellence abroad."*[6]

Small states on the world stage

An independent Scottish state could, like other small states, be a successful player on the international stage. The important question is whether it would be more successful in promoting the interests of people and businesses in Scotland internationally than the UK currently is. Academic theories of international relations tend to recognise that while small states can play an international role out of proportion to their size, particularly in specialist areas, they are politically, militarily and economically more vulnerable than larger states, and therefore seek protection through close relationships with larger neighbours or through memberships of international organisations and alliances.[7]

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5 *Scotland's International Framework*, Scottish Government, October 2012, www.scotland.gov.uk/Publications/2012/10/3096/4

6 *Scotland's International Framework* (updated October 2012), www.scotland.gov.uk/Publications/2012/10/3096/0

7 Bailes AJK, Thorhallsson B and Johnstone RL, 'Scotland as an Independent Small State', *Icelandic Review of Politics and Administration* (2013) 9(1); supplementary written evidence from Catarina Tully, Director, FromOverHere published in the Foreign Affairs Committee report *Foreign policy considerations for the UK and Scotland in the event of Scotland becoming an independent country*, HC 643 2012–13, May 2013, Ev 110

This can mean that they are more constrained in their choices on the international stage than larger states. The Director of the Centre for the Study of Public Policy at the University of Strathclyde has noted that *"the lack of the 'hard' power of military force and a large Gross Domestic Product forces small states to rely on 'smart' power, that is, a conscious strategy of engaging with other counties in order to call attention to common interests that may be pursued for common advantage. While Scotland has the advantage of being an internationally known 'brand' that may help to open doors abroad, this is insufficient to seal deals."*[8]

Therefore, an independent Scottish state may find itself continuing to need to work with, and through, the UK. As a separate state, the UK would no longer have any obligation to use its resources to represent Scottish interests as it currently does. The government of an independent Scottish state would have to consider how to replicate those resources – not just budgets, buildings and people, but a country's presence on the international stage – to deliver its international policy.

As well as outlining the UK's current international activity and the benefits it brings for people and businesses in Scotland, this paper examines some of the choices an independent Scottish state would need to make in the event of a vote for independence.

The structure of this paper

- **Chapter 1** sets out the UK's current international policy, its role in key organisations and the benefits to Scotland. It analyses how independence may affect an independent Scottish state's capacity for action and influence overseas.
- **Chapter 2** examines the delivery of that policy for the whole of the UK, including Scotland, through formal and informal networks and relationships. It looks at the considerations for an independent Scottish state in seeking representation at a bilateral and multilateral level.
- **Chapter 3** looks at the issue of EU membership, a key consideration for an independent Scottish state. The chapter examines how the terms of an independent Scottish state's membership may be negotiated and analyses the potential impact on Scottish contributions to the EU's budget.
- **The annexes** provide detailed information on the EU budget analysis, the UN Specialised Agencies and other international organisations, and set out a brief analysis of countries of a similar size to an independent Scottish state.

Other aspects of international policy in its widest sense are only considered briefly in this paper. Separate papers in the Scotland analysis series have covered defence and security matters.

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8 Written evidence from Professor Richard Rose, Director, Centre for the Study of Public Policy, University of Strathclyde, Glasgow published in the Foreign Affairs Committee report *Foreign policy considerations for the UK and Scotland in the event of Scotland becoming an independent country*, HC 643 2012–13, May 2013, Ev 101

Chapter 1:
The UK's international policy

- The UK has a unique and historic role in world affairs, with a range of international interests that it pursues on behalf of all of its people. These include enhancing the UK's security and prosperity, and promoting shared values, such as democracy and human rights and the fight against poverty. A secure and stable world is in the interests of Scotland and the whole of the UK, and Scotland, as part of the UK, is well placed to work towards it.
- People in Scotland benefit from the UK's influence on the world stage, while having a devolved government in Edinburgh that is able to pursue the international aspects of its policies for Scotland alongside, and with the support of, the UK Government. It would be for the government of an independent Scottish state to decide what its foreign, national security and defence policies would be. Whatever choices it made, an independent Scottish state could lose significant benefits that Scotland is currently entitled to as part of the UK.
- The North Atlantic Treaty Organization (NATO) has confirmed that an independent Scottish state would need to apply for membership and the North Atlantic Council would decide whether it met the membership criteria. Any decision would be subject to consensus approval by all NATO's 28 members.
- As one of the world's largest economies, the UK is a member of the G7, G8 and G20 – the key bodies of global governance. Its membership contributes to the UK's strong voice in world affairs, from economic, finance and trade policy to social, security and environmental issues, all of which are important to Scotland. An independent Scottish state would not be eligible for individual state representation at these bodies, but could be represented as part of the European Union (EU), once it had become an EU Member State.
- The UK works internationally to promote and protect the economic interests of businesses based in Scotland – for example defending Scotch whisky against counterfeits, discriminatory or excessive taxation, trade barriers and other restrictions. Scottish businesses benefit from the active support of UK Trade & Investment's (UKTI's) 169 offices in over 100 countries. Businesses in an independent Scottish state would lose access to the UKTI network and the political weight the UK can bring to champion them.

- When they travel, people in Scotland have access to UK consular representation in over 144 countries, with more than 800 full-time staff working on consular issues at any one time, delivering a comprehensive service to British citizens who find themselves in difficulty overseas. Although the Scottish Government has stated it would build on its existing Scottish Development International (SDI) network in 16 countries (which has trade rather than consular expertise) and appoint Honorary Consuls to represent Scottish interests, it is likely, at least in the short term, that citizens of an independent Scottish state would be dependent on other countries for consular assistance.[1] An independent Scottish state would be responsible for its citizens in any country where it had representation of any kind.

What is 'international policy'?

1.1 Every state has interests that it can only pursue by virtue of its relations with other states. The most fundamental is the security of the state and its population from external threats. In an open economy the state must also ensure that its firms have the freest possible access to foreign markets. And states must do what they can to protect their citizens when travelling abroad.

1.2 In addition, in many countries, citizens expect their state to do more than simply promote its own interests. The people of richer countries will often want their state to try and help the governments of poorer countries provide a better future for their own people. Citizens of free societies will expect their state to promote and project their values of human rights and democratic government, and to hold to account those countries which deny their own people those rights. And many people feel it is the responsibility of states that are able to intervene in other parts of the world to prevent oppression and genocide, to do so.

1.3 The UK is no different. Its people – whatever part of the country they come from – expect their government to keep them safe from external threats, promote growth and prosperity through international trade, protect them when they travel abroad, and act in a way that reflects their values and identity and extends the benefits of a free and prosperous society to their fellow human beings wherever they are in the world.

1.4 This chapter discusses these different aspects of the UK's international policy, the benefits they bring for people and businesses in Scotland, some of the implications of independence for Scotland's interests in the world, and the choices an independent Scottish state would face in formulating its international policy.

Protecting the UK from external threats

1.5 In determining its defence and security needs, any state has to assess the threats and risks it faces, prioritise them and decide how it will tackle them. In a world which is increasingly interconnected and interdependent, the UK is an open, outward-facing state that depends on trade and whose citizens live all over the world. This brings great opportunities, but also vulnerabilities. Like most other countries, the whole of the UK, including Scotland, faces a diverse and unpredictable range of threats and risks, many of which come from overseas and require an international and proactive response.

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1 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

1.6 The UK Government's 2010 National Security Strategy[2] identifies the priority risks to the UK as a whole, with four assessed as being of greatest concern:

- international terrorism affecting the UK or its interests;
- hostile attacks upon UK cyber space;
- a major accident or natural hazard; and
- an international military crisis between states, drawing in the UK and its allies as well as other states and non-state actors.

1.7 The Scotland analysis papers on defence and security consider these issues in more depth. This section considers the importance of the UK's international relationships in protecting the UK from external threats.

1.8 The UK's security is underpinned by several factors. These include strong institutions that, in many areas, are world-class and deliver economies of scale and embedded cross-governmental links between those institutions. This domestic architecture is supported and enabled by the UK's international and inter-governmental networks including membership of a range of international organisations and alliances; its relationships across the intelligence world, including with key international partners; and technological and human capabilities. None of these networks can be taken for granted, and they have been painstakingly created over many years. The UK, and its constituent nations, benefit hugely from these arrangements.

1.9 The UK maintains a firm commitment to collective security through a rules-based international system, and through a strong network of international alliances and relationships. This includes traditional allies such as the United States (US) and France, Norway and Denmark, as well as other states such as India, Turkey, Japan and the Gulf states. It also includes a range of alliances, from NATO and the EU to the G8 and G20; from its permanent seat on the United Nations Security Council to its leading positions in the Commonwealth and the Organization for Security and Co-operation in Europe (OSCE). The UK's objective is to broaden and deepen the UK's strategic security partnerships with its traditional allies, emerging powers and key global partners through defence engagement, diplomatic dialogue and capacity-building support to build trust, understanding and mutual support, to help reduce threats to the UK from unstable parts of the world.

1.10 The global reach of its diplomatic network allows the UK to benefit from a greater understanding of the situation on the ground across the globe, and allows the UK to help respond to changes and alleviate potential threats at source before they reach the UK. The UK's diplomats work with development experts to improve security in unstable areas of the world; with intelligence agencies, in detecting possible threats to the UK; with civilian and military defence colleagues, in helping to stabilise fragile states and regions. The UK Government's Stabilisation Unit, formed between the Foreign and Commonwealth Office (FCO), the Department for International Development (DFID) and the Ministry of Defence (MOD), works to ensure an integrated, comprehensive approach wherever it is necessary.

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[2] *A Strong Britain in an Age of Uncertainty: National Security Strategy*, HM Government, October 2010, www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_191639.pdf

1.11 The UK continues to play a leading, constructive role in a number of international security regimes, working with international partners to shape global rules and norms, and to mitigate threats to the UK by strengthening global rules. These include measures such as the Treaty on the Non-Proliferation of Nuclear Weapons, the Chemical Weapons Convention, the Treaty on Conventional Armed Forces in Europe and the Arms Trade Treaty (ATT) – all of which the UK played a leading role in negotiating.

1.12 *Scotland analysis: Security* shows how Scotland benefits from the UK's extensive security and intelligence, law enforcement and protective security machinery – both domestically and overseas – while preserving the distinct Scottish legal system. This constitutional setup brings benefits to all who live in the UK. While an independent Scottish state and the continuing UK might of course cooperate on issues of mutual interest, geographic proximity and historical relations would not guarantee continued access to the UK's security and intelligence capabilities. International intelligence sharing depends on making a contribution valued by partners and on mutual trust, both of which an independent Scottish state would need to establish. Scotland would lose the economies of scale intrinsic to the existing UK-wide arrangements and therefore may have to accept less efficient and effective capabilities.

1.13 An important part of dealing with the threat of international terrorism is effective measures for tackling money laundering and terrorism financing. The UK is a founding member of the Financial Action Task Force (FATF), the body that sets the global standards in these areas, including those for financial institutions on customer due diligence requirements, record keeping and supervision.[3] Countries seek membership to demonstrate commitment to robust anti-money laundering and counter-terrorism financing regimes, to play a part in setting FATF standards, and to take part in the mutual evaluation process which assesses jurisdictions' compliance with those standards. As such, an independent Scottish state may still want to be a part of FATF. However, there is currently a moratorium on membership. FATF has set up a working group to consider the question of whether FATF should expand, and if so on what grounds. It is therefore not yet possible to say whether an independent Scottish state would meet the admission criteria as these are yet to be agreed by FATF. Membership of a FATF-style regional body such as MONEYVAL[4] would present an alternative option if an independent Scottish state failed to meet the admission criteria for FATF, or if FATF chose not to expand at a time when an independent Scottish state was seeking membership.

1.14 The current UK external border is controlled and managed by the UK Border Force and the UK Visas and Immigration and the Immigration Enforcement commands within the Home Office. They are assisted by the National Crime Agency (NCA), the police, and the security and intelligence agencies and their international liaisons. They work to protect the citizens of the UK from the threats of terrorism, organised crime and illegal migration. They work throughout the UK and overseas, operating in over 130 countries to facilitate legitimate travel by issuing visas while stopping or removing those who have no right to be in the UK. An independent Scottish state and the UK could agree to collaborate closely but that collaboration, between two independent states, is unlikely to be as effective or efficient as the current arrangements. An independent Scottish state would be required to make decisions about how to manage the flow of people and goods across its borders. These issues will be explored in more detail in future papers in the Scotland analysis series.

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[3] FATF was founded by the G7 in 1989. More information can be found on the FATF website: www.fatf-gafi.org/pages/aboutus/historyofthefatf/

[4] The Committee of Experts on the Evaluation of Anti-Money Laundering Measures

1.15 Different countries make different choices about the global security contribution they wish, or are able, to make. Some, such as Sweden, Ireland and Austria, choose to remain neutral, outside alliances such as NATO, and to restrict their role to peacekeeping operations under the auspices of the UN. Others can, and do, make an important contribution to wider global security objectives. To do so, however, requires strong alliances and credible, well funded and equipped armed forces in order to contribute effectively to the shared commitment to collective defence, through burden-sharing and pooling of capabilities. Annex D contains a table of comparator countries of a similar size to an independent Scottish state. Further detail can also be found in *Scotland analysis: Defence*.

1.16 While an independent Scottish state might seek to engage in cooperative security and defence arrangements (as the UK does today), as a new state its capability and credibility would be unproven. This may create complications for establishing new relationships and partnerships and require significant time, resource and investment to match the current benefits it currently has as part of the UK.

The North Atlantic Treaty Organization

NATO's fundamental and enduring purpose is to safeguard the freedom and security of all 28 members by political and military means. The UK is a significant contributor to NATO in political, military and financial terms. In 2011, the UK remained the second largest military spender in NATO after the US, and one of only three NATO countries which met the NATO target of spending the equivalent of 2 per cent or more of Gross Domestic Product on defence. This leads to significant influence within the alliance as well as the collective resources and security the alliance provides to members.

In October 2012*, the Scottish National Party (SNP) revised its stance on NATO membership and suggested that an independent Scottish state would remain in NATO, provided NATO "takes all possible steps to bring about nuclear disarmament". While this long-term goal is not incompatible with the aspirations of NATO and its members, it would be for an independent Scottish state to reconcile its policy on nuclear weapons with NATO's Strategic Concept, agreed by all allies, which states that "NATO will remain a nuclear alliance for as long as nuclear weapons exist".

Previous SNP statements** that "on independence, Scotland will inherit its treaty obligations with NATO" are incorrect. NATO has confirmed† that an independent Scotland, as a new state, would need to apply for membership and the North Atlantic Council would decide whether it met the membership criteria. Any decision would be subject to consensus approval by NATO's 28 members. NATO's position was accepted by Keith Brown, the Scottish Government's Minister for Transport and Veterans, in evidence to the UK Parliament's Defence Select Committee on 2 July 2013. NATO is also discussed in *Scotland analysis: Defence*.

* *SNP members vote to ditch the anti-NATO policy*, BBC News Scotland, 19 October 2012, www.bbc.co.uk/news/uk-scotland-scotland-politics-19993694

** NATO resolution passed at SNP party conference in Perth in October 2012

† *Scottish independence: Alex Salmond 'certain' on NATO membership*, BBC News Scotland, 10 April 2013, www.bbc.co.uk/news/uk-scotland-scotland-politics-22089955

1.17 Most countries work together where they have complementary requirements and capabilities. The UK works closely with security allies through NATO and its bilateral relationships. For example, France's role in NATO and as a permanent member of the UN Security Council make it the UK's leading foreign and security policy partner in Europe.

The bilateral defence relationship includes very close working, even in areas of sovereign sensitivity – for instance, on nuclear issues. The Lancaster House Treaty of 2010 has brought the UK's and France's defence forces even closer together.[5] In terms of foreign policy, the UK is closely aligned with the French on many issues such as Syria, Iran, the Middle East Peace Process and Mali. In addition, France and the UK have significant shared commercial and economic interests in the energy and other sectors.

The Arms Trade Treaty (ATT)

In June 2013, the UK, France, Germany and Brazil signed the world's first legally binding treaty to regulate the arms trade. The introduction of the ATT has been a top priority for the UK Government and it worked at an international level for a robust agreement that could achieve the broadest possible support. The ATT will make a difference. By introducing internationally agreed standards for the arms trade it will reduce human suffering by preventing arms from being used in serious violations of human rights and international humanitarian law. It will also help to combat terrorism and crime by steadily reducing the unfettered proliferation of weapons. A properly regulated arms trade will help states to meet their legitimate defence and security needs to protect their citizens. Since opening for signature on 3 June, over 70 states have signed the treaty and Iceland has become the first to complete ratification. Scotland, as part of the UK, is currently playing an active role in driving this agenda forwards.

UK growth and prosperity

1.18 There are four main channels through which the UK Government delivers on its commitment to generating growth and prosperity for the whole of the UK, including Scotland:

- open markets – where the UK promotes market access and fights protectionism and corruption;
- trade – where the UK works to break down barriers to trade and promote free trade agreements, such as its active role in launching the EU/US Transatlantic Trade and Investment Partnership (TTIP) in July 2013, which is expected to add £10 billion to the UK's economy;
- transparency – where promoting transparent and inclusive institutions for open societies and open economies delivers benefits for the UK; and
- security – where the UK works to deliver a secure global energy supply and a sustainable low carbon economy; mitigates threats to growth from global resource volatility, illicit financial flows and cyber attacks; and manages political crises in pursuit of global economic stability.

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5 The 2010 UK–France summit saw the signing of the Defence and Security Co-operation Treaty (the Lancaster House Treaty). See: www.gov.uk/government/news/uk-france-defence-co-operation-treaty-announced--2

Promoting economic wellbeing through international cooperation

1.19 Effective international cooperation is a vital component in promoting the UK's economic wellbeing. As one of the world's largest economies, the UK is a member of the G7, G8 and G20. Within these institutions the UK has the power to shape responses to global issues, and played a leading role in the response to the financial crisis; the UK chaired the G20 in 2009 and continues to play a leading role in the decisions it takes. Its membership contributes to the UK's strong voice in world affairs, from economic, finance and trade policy to social, security and environmental issues, all of which are important to Scotland.

The G20, G8 and G7

1.20 The G20 is the premier forum for international economic cooperation and is unique in bringing together the political leaders of the world's major economies – advanced and emerging alike – on an equal footing. The UK's place at the G20 table ensures that Scottish interests are represented when key decisions and agreements which affect the global economic system are made. G20 members are the world's major economies, accounting for 85 per cent of global economic output and 80 per cent of global trade. The G20 played a vital role in shaping the global response to the economic crisis which began in 2008. It covers major economic issues including global financial regulation, anti-corruption, energy, labour and jobs, and development. Through chairing the G20 in 2009, the UK shaped the global response to the financial crisis and the policies that were agreed at a vital moment to prevent a greater global downturn. The G20 has continued to shape the global response to the world economic downturn and support strong, sustainable and balanced growth. This includes agreement to refrain from protectionism, which could harm export-led markets; to reform the global financial system, which affects the financial services industry; and, ultimately, to support strong, sustainable and balanced growth in the global economy. The UK, representing Scotland's large financial services industry and proud trading history, is a key participant in the global economy.

1.21 The G8 remains a leading forum in which economic, political and security issues are discussed, allowing the UK a seat at the table where global responses to foreign policy and development issues are formulated. The G8 (which comprises Canada, France, Germany, Italy, Japan, the UK, the US and Russia) has a broad agenda, covering the key global challenges of the day, including foreign policy, while the G7 (which Russia does not attend) traditionally discusses economic issues. The G7 and the G8 represent around half of global Gross Domestic Product (GDP), and are key opportunities for the UK to project its international objectives and make its voice heard. The G8's work on the trade, tax and transparency agenda under the UK's Presidency this year, for example, will have a lasting impact on these issues in the UK and globally. Improving international standards will allow countries to collect tax that is due to them, allowing them to strengthen public services in areas such as health and education. It will protect public finances and improve confidence in the global economic system.

1.22 Each country takes its turn to hold the rotating Presidency of the G7/8 every eight years and can bid every four years to host the G20. The UK holds the Presidency of the G7 and G8 in 2013 and also held the G20 Presidency in 2009 (at the height of the global financial crisis). In 2005, the UK Government hosted the G8 in Gleneagles, Scotland. In June 2013, the UK hosted the G8 summit in Lough Erne, Northern Ireland, where leaders announced the start of negotiations on the TTIP, a once-in-a-generation opportunity that will increase trade between the US and the EU – the two largest economies in the world. The benefits to the UK could be worth up to £10 billion a year, or more than £380 per UK household.[6]

1.23 Scotland is represented by the UK's individual state participation in discussions with the world's leading economic powers, at the G7, G8 and G20 and the International Monetary Fund (IMF). This representation would cease under independence: the size and strategic significance of an independent Scottish state's economy would not warrant its inclusion as an individual state among the leading economies of the world. An independent Scottish state could be represented at the G7, G8 and G20 as part of the EU representation, once it has joined the EU. Its position would have to be agreed with the rest of the EU membership whereas the UK speaks for itself (in close coordination with EU partners) at G7, G8 and G20 meetings. Should an independent Scottish state apply to join the IMF it is unlikely to be represented by a single seat, as is the case with the UK. As with other small states, it would be likely to be required to join an IMF constituency, most likely one representing other European countries. Another option would be to form a constituency with the UK. Annex C looks at the terms of membership of the main international organisations of which the UK is a member in more detail.

Promoting trade and investment

1.24 'Commercial diplomacy' is central to the UK Government's prosperity agenda, bringing together the Government's international activity in support of the UK economy, aligning UK foreign policy goals with the Government's overall objective of returning the UK to strong economic growth and using diplomacy to help create and promote the conditions for that growth through trade and investment. The UK is managing a significant shift of network resources to strengthen bilateral and regional relationships with key emerging powers, which will contribute to the UK's longer-term prosperity and capacity to tackle challenges such as corruption, climate change and transparency (for example through the UK Bribery Act 2010).

1.25 UK Government departments such as the FCO, the Department for Business, Innovation and Skills (BIS) and UKTI work in partnership to help create and promote the conditions for growth through international trade and investment. Together they are able to support business by providing high level political and economic analysis and access to decision makers around the world; identifying new business opportunities; sharing intelligence and managing risk through expert knowledge of the local political and economic environment; using inward and outward high level visits to lobby on behalf of UK interests and trade opportunities; supporting UK trade missions around the world; and coordinating government relationships with key businesses to help remove barriers to international trade and investment.

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6 *Estimating the Economic Impact on the UK of a Transatlantic Trade and Investment Partnership (TTIP) Agreement Between the European Union and the United States*, Department for Business, Innovation and Skills, 13 May 2013

Case study: Scottish power company contract in Southern Africa

The UK's diplomatic and trade networks were instrumental in helping a leading Scottish power company to land energy contracts in Southern Africa worth in the region of £140 million. The company, employing 400 people in Scotland, was introduced to the Mozambican Ministers for Energy and Trade at a UKTI trade event in Johannesburg. The company's Chief Executive Officer was also part of the Prime Minister's business delegation on his visit to South Africa, where the delegation was introduced to the South African Minister for Trade and to the President.

These contacts, initiated by the UK, led to the setting up of an energy agreement in which the Scottish company constructed a power plant in Mozambique near the South African border – the first cross-border, interim Independent Power Provider to the Southern African Power Pool, which is one of the largest interconnected grids in the world linking the power networks of nine countries in Southern Africa. The plant started power production in July 2012, supplying electricity to Mozambique and South Africa. The long-term value of the project, which will also involve power supply to Namibia, is likely to be in excess of £140 million.

1.26 UKTI[7] is a joint, non-ministerial government department of the FCO and BIS. UKTI teams support businesses throughout the UK in trading internationally and identify high value business opportunities for the UK around the world. It has over 1,200 officers in 169 offices in over 100 countries. UKTI's work is supplemented by the UK's wider diplomatic and consular network, which also is able to help UK businesses in smaller markets where UKTI is not directly represented, as well as lobbying governments to improve market access and the business environment for UK products and services. Businesses from all parts of the UK, including Scotland, therefore benefit from UKTI's expertise in country and market sectors, and the UK's unparalleled reach, access and influence across the world.[8] This level of access and support would change for businesses based in an independent Scottish state as they would lose access to the UKTI global network.

7 More information about UKTI's work is available at: www.ukti.gov.uk

8 Events designed to encourage inward investment to the UK and promoting UK exports overseas are one of the UK Government's main foreign policy priorities and since April 2011 the FCO has implemented a policy of not charging other Government departments for holding events in its network of posts overseas, except for passing on direct costs incurred by the FCO. Under the terms of the Memorandum of Understanding with the Scottish Government, the FCO applies the same policy for recovering costs of services provided to the Scottish Government as it does with UK Government departments. The FCO does not therefore charge Scottish Development International for holding events in FCO premises overseas, and only passes on direct costs incurred on its behalf by the FCO. UKTI's main chargeable product is the Overseas Market Introduction Service, a bespoke service that puts businesses directly in touch with UKTI staff in overseas markets who provide tailored business advice, undertake research and support events and visits. A set of activities meeting each business's needs will be discussed, developed and agreed with the UKTI adviser in the chosen overseas market. A price will be quoted based on the time required to deliver the work and will vary according to the country, the access to information in those markets and the type of activity required. UKTI's charging policy applies to all companies wherever they are located in the UK.

Case study: Food exports outside the EU

Scottish salmon is Scotland's largest food export.* The UK Government negotiates market access for UK agri-food products through the Department for Environment, Food and Rural Affairs (Defra) as the Competent Authority for the UK. An independent Scottish state with its own separate Competent Authority would need to renegotiate market access for its products as it could no longer export under UK export health certification. These market access procedures generally take several years to complete. Products to which sanitary and phytosanitary protocols apply (i.e. those that carry a potential risk to human, animal or plant health) cannot be exported without valid export health certification.

The UK Government secured the inclusion of Scottish Farmed Salmon on a pilot list of ten EU Geographical Indication of Origin products to be granted protection in China. This means that Scottish salmon producers now have a legal basis to take action against companies selling salmon not produced in Scotland under the Scottish Farmed Salmon label in China.

As well as giving support to visiting Defra officials in market access negotiations and helping Scottish companies with compliance issues (most often involving consignments of goods held at ports of entry due to regulatory or documentation problems), UKTI has actively promoted Scottish Farmed Salmon at a series of events. These included an EU–China Trade Project event in 2012 where Chinese officials from different provincial China Inspection and Quarantine Services (CIQs), who implement import-export controls on food at China's ports of entry, were given presentations on Scottish Farmed Salmon, its production methods and its qualities. UKTI has also helped SDI secure the approvals needed to bring Scottish seafood into China for trade shows and other promotional events, most recently for a promotional event in Shanghai in summer 2013.

* *Exports: The largest food export from Scotland*, Scottish Salmon Producers' Association, April 2013, www.scottishsalmon.co.uk/markets/exports.aspx

1.27 Exporting is invariably a source of sustainable growth. Exports contribute about 60 per cent of UK productivity growth and one in four jobs in the UK are linked to overseas business.[9] In 2012, total UK goods exports were £296.2 billion, at least £17.4 billion (5.9 per cent) of which came from Scotland.[10]

1.28 Support in Scotland for exports is currently delivered through a partnership between UKTI and SDI[11] – a joint venture between the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise. This means businesses based in Scotland have the best of both worlds: access to the significant expertise and global reach of the UK, and the Scotland-specific focus of the SDI effort, which has 26 offices in 15 countries outside the UK.[12]

[9] *BIS Economics Paper No.13: International Trade and Investment: The economic rationale for government support*, May 2011, www.gov.uk/government/publications/the-economic-benefits-of-support-for-international-trade-and-investment, page 56

[10] *Regional Trade Statistics Archive*, HM Revenue and Customs, www.uktradeinfo.com/Statistics/RTS/Pages/RTSArchive.aspx

[11] *Scottish Development International: Who we are*, Scottish Development International, 2013, www.sdi.co.uk/about-sdi/who-we-are.aspx

[12] SDI has offices in Australia, France, Germany, Denmark, Norway, Russia, Brazil, Canada, China, Japan, India, South Korea, Singapore, UAE and the US.

1.29 In the period 2012/13, UKTI teams both at home and overseas provided trade support (a total of more than 5,000 interactions) to over 1,900 companies and organisations across Scotland. Examples include 141 grants provided to Scottish firms through support under UKTI's Tradeshow Access Programme and 288 Overseas Market Introduction Service services delivered on behalf of Scottish firms through UKTI overseas teams. Additionally, UKTI provides funding of £50,000 per annum to SDI under UKTI's Market Visit Support (MVS) programme to support Scottish companies visiting overseas markets. In 2012/13, two Scottish missions (to India and South Africa) were supported under the MVS programme; for 2013/14, missions have already taken place to Brazil, China, UAE/Qatar and the US, and missions to Turkey and India are being planned. SDI also has the opportunity to participate in and host UKTI seminars and events as part of the UK-wide programme.

1.30 UKTI's Defence and Security Organisation (DSO) provides the essential government-to-government relationships which underpin commercial campaigns in these sectors. According to DSO figures, in 2012 the UK's share of the global defence market as measured by winning new defence business was 17 per cent, worth £8.8 billion[13] and meaning that the UK maintained its position as the second largest exporter of new defence products and services in the world. Scottish companies, and multi-national companies with facilities in Scotland, benefit from access to this highly specialist resource. *Scotland analysis: Defence* considers the value of this industry to Scotland in more detail.[14]

[13] *UKTI DSO annual survey*, DSO, 20 June 2013, www.ukti.gov.uk/uktihome/pressRelease/527180.html

[14] *Scotland analysis: Defence,* HM Government, October 2013, www.gov.uk/government/publications/scotland-analysis-defence

Case study: Scotch whisky

Scotch whisky is the UK's biggest export in the food and drink sector, totalling £4.3 billion in 2012. It is the number one globally traded spirit drink. Exports have grown by more than 80 per cent over the last decade. The industry supports 35,000 jobs in Scotland. The Scotch Whisky Association (SWA) represents the industry around the world, working closely with the UK Government and, with its support, the European Commission. The SWA uses the UK's global diplomatic network, with its excellent local connections, knowledge and commercial expertise, to promote whisky exports and tackle barriers to trade.

Defending Scotch whisky against counterfeit, discriminatory or excessive taxation, trade barriers and other restrictions is an important priority for UK diplomats. In 1996, with the support of the UK Government, the EU successfully challenged Japanese excise taxes on alcoholic beverages which discriminated against Scotch whisky and other products in favour of the domestically produced Shochu. The World Trade Organization (WTO) panel found in favour of the EU arguments and asked Japan to bring its tax policies into conformity with its obligations. Similar successful WTO cases were brought against Korea and Chile.

Since then, the UK Government has provided strong support to the efforts of the SWA to remove and prevent a range of trade barriers across a large number of countries, notably India, Thailand, Uruguay and the Philippines. More recently, the UK acted swiftly in the interests of the Scotch whisky industry when all imported alcohol was banned from the Czech Republic and Slovakia, following a counterfeit drinks scandal in 2012. The UK's Ambassadors in those countries lobbied strongly against this, which helped to resolve the ban and allow normal trade to resume.

Outside the EU, in 2012 the UK's missions in Brazil, China, Colombia, India, Indonesia, Mexico, Russia, South Korea, Taiwan, Thailand, Turkey and Vietnam supported the industry by working to have discriminatory barriers to whisky imports removed, intellectual property laws improved and onerous customs procedures reduced.

This work was recognised by the SWA which said: *"the industry works closely with the UK Government... FCO, BIS, UKTI, DEFRA, and the British Embassy network. The generally high quality level of support received over many years supports the industry's market access ambitions. Working together, the industry and government can point to numerous trade barriers that have been removed, supporting the competitiveness of the sector."**

* SWA written evidence to the Foreign Affairs Committee inquiry published in *Foreign policy considerations for the UK and Scotland in the event of Scotland becoming an independent country*, www.publications.parliament.uk/pa/cm201213/cmselect/cmfaff/643/64302.htm

UK Export Finance

1.31 UK Export Finance (UKEF) is the UK's export credit agency (ECA). Its principal statutory purpose is to support exports. It does so mainly by providing insurance to UK exporters and guarantees to banks (in respect of export credit loans they make available to finance UK exports). This protects exporters against the risk of overseas buyers not paying them, and banks against the risk of loans not being repaid. UKEF's remit is to complement the provision of finance and trade credit insurance available from the private market. In doing so it provides a level playing field for UK exporters, who are competing for export contracts with overseas companies that are able to get support from the ECAs in their respective countries. ECAs operate under a number of EU and Organisation for Economic Co-operation and Development (OECD) regulations and states are not permitted to subsidise the activities of their ECAs under WTO rules.

1.32 The amount of UKEF support that is provided in respect of contracts won by Scottish companies varies year by year depending on the success of those companies in winning overseas orders and whether UKEF support is required to make finance available or insure against payment risks. In the 2012/13 financial year, UKEF issued guarantees and insurance of some £51 million in respect of companies that were based in Scotland.

1.33 Scottish exporters would lose access to UKEF in an independent Scottish state. There would also be a transition issue over responsibility for the contingent liability of existing insurance and guarantees issued by UKEF to companies based in Scotland. It would be a matter for the government of an independent Scottish state to decide whether or not to have an ECA (Ireland, for instance, does not have one), and if so on the model for delivery that it wished to adopt. Under WTO rules, a Scottish ECA would need to charge an adequate premium for its services to cover its long-term operating costs and losses.

Case study: UKEF Bond Support Scheme

UKEF launched the Bond Support Scheme in March 2011 to increase capacity for contract bonds issued by banks on behalf of UK exporters. These bonds are a form of credit which enables companies to hold large export contracts. By sharing the risk of these bond issues by providing a partial guarantee to the issuing bank, UKEF is able to reduce the amount of collateral needed by the exporter, thereby releasing cashflow to perform the export contract.

An engineering company employing more than 800 people in Scotland found its cashflow restricted by its existing banking facilities and was finding it difficult to issue contract bonds for its overseas projects. This put it at a disadvantage internationally when competing for export contracts. The Bond Support Scheme helped remove this barrier, allowing the company to protect ongoing contracts worth £35 million and also helped it to secure additional contracts worth £2 million.

Foreign direct investment

1.34 In 2012/13, the UK attracted 1,559 foreign direct investment (FDI) projects, which created or safeguarded 170,000 jobs. UKTI and its partners provided significant assistance in 85 per cent of these projects.[15] Some 13,519 jobs associated with 111 of these projects went to Scotland – 7 per cent of the total number of projects, and 8 per cent of the total jobs. UKTI was involved in 84 out of the 111 projects; 20 on its own, and 64 in partnership with SDI. SDI has full access to UKTI's investment opportunities, so that where SDI believes Scotland has an appropriate offer, it is able to contribute to propositions being developed by UKTI for companies which are investigating coming to the UK. In the event of a vote for independence, an independent Scottish state would compete with the rest of the UK to attract FDI, and access to the pipeline would cease. *Scotland analysis: Business and microeconomic framework*[16] considers the importance of FDI to the UK, including Scotland, in more detail.

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[15] *Inward Investment Report*, UKTI, 24 June 2013, www.ukti.gov.uk/investintheuk/uktipublications/item/553980.html

[16] *Scotland analysis: Business and microeconomic framework*, HM Government, 2 July 2013, www.gov.uk/government/publications/scotland-analysis-business-and-microeconomic-framework

1.35 UKTI has a key policy-influencing role within the UK Government, representing the views of existing foreign direct investors in the UK, such as where they have identified potential barriers to investment resulting from new or amended legislation or regulation. SDI feeds into this on behalf of foreign investors based in Scotland, thereby having direct input into the regulatory framework of the UK, the number one FDI destination in Europe.

Protecting British citizens abroad

1.36 The extent of the UK's connections overseas – particularly trading relationships and family ties – means that the UK maintains one of the most extensive and effective consular networks of any country in the world. Consular staff work for the protection of British citizens visiting or living overseas. Whenever things go wrong for British citizens abroad, they have access to one of the most comprehensive consular services in the world.[17] The UK has consular representation at 216 posts in 144 countries, with more than 800 staff working on consular issues at any one time in the UK and abroad, serving British citizens who find themselves in difficulty overseas. This is supplemented by over 230 Honorary Consuls.

1.37 Honorary Consuls are volunteers who can help posts to provide a more accessible and responsive service to British and other nationals for whom the UK has consular responsibility abroad. They are usually appointed in areas where the UK has no formal consular representation. They receive no salary from the FCO, but some are paid a small honorarium in recognition of their services. Honorary Consuls do not work independently but are tasked on all areas of their work by their superintending post. They are considered Consular Officers under the Vienna Convention on Consular Relations but do not perform all functions that a Diplomatic Consular Officer does; for example, they do not issue emergency travel documents.

1.38 There are also 160 other staff, trained in crisis management, ready to be deployed at any moment in response to a crisis overseas. In 2011 these Rapid Deployment teams were deployed on ten occasions to support British citizens, including from Scotland, during unrest in Tunisia, Egypt, Bahrain, Côte d'Ivoire and Syria; the Japanese tsunami; the New Zealand earthquake; the Marrakesh bombing; and floods in Thailand.

1.39 Each year, UK consular staff around the world deal with around one million enquiries from members of the public. Of those, over 19,200 are from people who need help because they are facing particularly difficult circumstances. In 2012/13,[18] that included:

- 6,193 deaths;
- 5,435 arrests and detentions;
- 3,707 other assistance which includes: child abduction and custody, forced marriage, abduction, assault (general), missing persons, mental health, repatriation and welfare;
- 3,599 hospitalisations;
- 172 sexual assaults; and
- 138 rape cases.

[17] There is no legal right to consular assistance. All assistance provided is at the discretion of the Consular Directorate of the FCO.

[18] *British Behaviour Abroad Report 2013,* HM Government, August 2013, www.gov.uk/government/uploads/system/uploads/attachment_data/file/212707/British_Behaviour_Abroad_report_2012-13.pdf

1.40 While there is a charge for some of the UK's consular services, such as for legalising documents, the cost of maintaining the global consular operation is met from the 'consular premium', a small charge added to the cost of every new British passport. This means that around £1.50 from each newly issued passport goes towards the cost of the consular service.

1.41 The UK's substantial overseas footprint, together with its national expertise and capabilities developed over many years, enables it to provide support overseas to UK citizens which surpasses the boundaries of most countries' consular services. Examples of where this might apply are cases of the kidnap overseas of UK citizens, child abduction and forced marriage. This needs-based assistance is provided by the UK Government for its citizens, and does not form part of any agreement to provide consular services to citizens of other states. In the event of independence, it would be for the government of an independent Scottish state to determine the level of resources, beyond the access to standard consular services, which it would allocate to ensure the protection of its citizens overseas.

1.42 This assistance is underpinned by a wide range of specialised agencies. The Anti-Kidnap and Extortion Unit, for instance, which now sits within the UK's NCA, is recognised worldwide as a centre of excellence. In 2012, it was informed of 108 kidnaps overseas involving a UK citizen. The NCA can provide support to UK diplomats and to the law enforcement agencies of other countries, and be deployed overseas. NCA resources are available currently to all UK police forces, including in those parts of the UK, such as Scotland, where responsibility for policing is devolved.

Case study: UK response in kidnapping case

A five-year-old British child was kidnapped in central Pakistan in 2010 during an armed robbery at the family home. The kidnapping was reported to the British High Commission in Islamabad. The UK's Serious Organised Crime Agency (SOCA) coordinated the response to the kidnap investigation by providing tactical and strategic advice which resulted in the safe recovery of the child.* A ransom sequence payment under the control of the Greater Manchester Police and SOCA was initiated in Manchester and taken by courier while under surveillance by British, French and Spanish officers. The hostage takers released the child when they received information that the ransom had been safely delivered in Spain.** A number of arrests were then made in Pakistan, Spain and France and the ransom money was recovered. In 2011, one of the hostage takers was sentenced to 60 years' imprisonment.

* SOCA was merged into the NCA which became operational in October 2013.

** In the UK there is a clear distinction between criminal kidnap and terrorist/political kidnap. The payment of any form of ransom to a terrorist group is a criminal offence in the UK and other jurisdictions. The payment of a ransom in the UK in a criminal kidnap by, for example, the victim's family or company does not constitute a criminal offence. However, in some countries the payment of a ransom in a criminal kidnap is outlawed.

What consular support could citizens of an independent Scottish state expect?

1.43 The rights of states to determine who their nationals are is a principle of public international law. The references in this section relating to 'dual citizenship' (British and Scottish) and 'sole Scottish citizenship' are used to illustrate what might apply in various scenarios. In the event that the people of Scotland voted for independence, post-referendum negotiations would be critical in determining the arrangements for many issues, including citizenship, which determines access to UK consular services. Until the outcome of the referendum is known, neither the UK Government nor the Scottish Government has a mandate to carry out those negotiations, and this means that inevitably there will be some uncertainty on the details of independence before the referendum. Further papers in the Scotland analysis series will consider the issues arising from citizenship in more detail.

1.44 It is clear, however, that an independent Scottish state would be responsible for providing consular assistance to its citizens in countries where Scotland was represented, regardless of the level or type of Scottish representation. Currently this representation is limited to 26 SDI offices, not always in capital cities and of which seven are based in FCO offices, in 15 countries and Scottish Government offices in Brussels, Beijing and Washington.[19] None provides consular services, as consular provision is a matter for the UK Government. An independent Scottish state would need to decide how to provide consular assistance to its citizens, both in countries where it would have a diplomatic presence and those where it would not.

1.45 When considering the provision of consular services, some common principles apply. For example, outside the countries where Scotland has representation, its citizens would be compelled to seek consular assistance from other states. The UK would provide consular assistance to anyone who retained their British nationality following Scottish independence. If a British citizen were also a Scottish citizen with dual citizenship they would still be able to access UK consular services, except in Scotland.

Consular cooperation within the EU

1.46 If an independent Scottish state were to become a member of the EU, Scottish citizens would be entitled to assistance from any EU Member State in a country where Scotland was unrepresented.[20] The assisting Member State is entitled to recover the costs of providing assistance from the Member State of the consular customer concerned. There is no uniform standard of consular assistance provided to EU nationals, and the level of assistance offered by EU Member States varies considerably. For example, the French Government will pay for the medical repatriation of its citizens, the costs of which can run into thousands of pounds. If the French Government were to provide this type of assistance to a Scottish citizen, the government of an independent Scottish state would be liable for the costs of this assistance.

1.47 However, as set out in Chapter 3, the process for an independent Scottish state's membership of the EU is likely to be complex and lengthy, and the government of an independent Scottish state would need to consider how to provide consular assistance to its citizens overseas including during any period before EU accession. An independent Scottish state would need to develop its own consular policy and, as an EU Member State, to fund the assistance its citizens sought from other Member States.

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[19] The Scottish Government has offices in Washington, Beijing and Brussels. The offices in Washington and Beijing are based on the FCO platform. All three offices are formally part of the UK's diplomatic representation in the host country.

[20] Article 20(2)(c) and Article 23, Treaty on the Functioning of the European Union

1.48 There are, however, services which EU Member States do not provide for each other overseas, such as birth, marriage and death registrations, which the government of an independent Scottish state would need to resolve. As set out in paragraph 1.39, there are services which the UK does not provide for non-British citizens, relating to kidnap overseas, child abduction and forced marriage. An independent Scottish state would remain responsible for providing consular services to its citizens in countries where Scotland was formally represented, regardless of the level or type of representation.

1.49 Annex D gives details of the diplomatic networks of countries of a similar size to an independent Scottish state.

Consular cooperation within the Commonwealth

1.50 Under informal arrangements, unrepresented Commonwealth citizens can often seek assistance from another Commonwealth member in a non-Commonwealth foreign country. For example, the UK provides consular services for Australians and Canadians in certain countries under local arrangements. If an independent Scottish state were to become a member of the Commonwealth, it could seek to put similar arrangements in place with the UK or other Commonwealth countries. But unlike in the EU, there would be no legal obligation for any country to agree, and the terms of the agreement would have to be negotiated on a case-by-case basis for each country, and would depend on an independent Scottish state being a member of the Commonwealth.

Passports and emergency travel documents

1.51 In 2012/13, UK consular staff dealt with nearly 30,000 cases of British citizens with lost or stolen passports. Many of them were issued with emergency travel documents (ETDs) so that they could continue their journey or return to the UK. British citizens, including those who hold dual nationality, can access the UK's passport service for renewal of a standard adult or child passport as well as being able to apply for an ETD at British Consulates overseas in the event that their passport is lost or stolen. It is uncertain what passport arrangements would be in place for anyone with sole Scottish citizenship. It is likely that the Scottish Government would have to develop its own emergency travel document for any sole Scottish citizens and bear the costs of doing so.

Projecting UK values: making the world a better place

The fight against poverty: international development

1.52 The UK is one of the world's leaders in the fight against poverty, with a large and influential programme, transforming millions of lives and playing a leading role in shaping the way the world tackles development challenges. On provisional data, in 2012, the UK provided £8.6 billion of Official Development Assistance (ODA),[21] second only to the US.

1.53 The UK is on track to achieve its commitment to meeting the global target of spending 0.7 per cent of Gross National Income (GNI) on ODA from 2013 – the first G8 country to do so. Scottish taxpayers – like all UK taxpayers – can be proud of the contribution they have made to achieving this.

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[21] *Preliminary ODA 2012*, OECD DAC database, www.oecd.org/dac/stats/oda2012-interactive.htm

1.54 The size and reach of the UK programme enables UK aid to deliver real impact across its 28 focus countries, 15 of which are in the Commonwealth. For example, from 2010 to 2013, UK support enabled 30.3 million people, over half of them women, to work their way out of poverty by providing access to financial services; it supported 5.9 million children to go to primary school; and prevented 12.9 million children and pregnant women from going hungry.

1.55 The UK delivers significant results through DFID funding to multilateral organisations which helps to draw in other donors to add their contributions to effective multilaterals. For example, in 2012, organisations that DFID supported gave 97.2 million people food assistance and immunised 46 million children against preventable diseases. The UK plays an important role in influencing global international development organisations. One example is the World Bank's International Development Association (IDA), a major provider of grants and loans to the world's poorest countries. UK support typically accounts for 10–14 per cent of donor contributions to IDA, making it one of the largest contributors and giving the UK a powerful voice in fund governance structures to help improve impact. IDA was assessed in the groundbreaking DFID *Multilateral Aid Review 2011* as very good value for money.[22]

Nutrition for Growth

"You [DFID] have convened the entire world. You're doing it at a time when budgets are very challenging. People will be amazed at what comes out of tomorrow." – Bill Gates on the eve of the Nutrition for Growth event, at the opening of DFID's Whitehall office, 7 June 2013

DFID works with a wide scope of partners – such as the Bill & Melinda Gates Foundation – to change the way the world tackles global poverty and its causes together.

The Prime Minister's Nutrition for Growth event held in London on 8 June 2013 was part of a major UK effort to mobilise governments, donors, civil society, philanthropists, business and science to invigorate and improve policy making on nutrition. This huge social media event secured financial and policy commitments from participants to improve nutrition, particularly among pregnant women and young children in the world's poorest countries. The event also established new partnerships on nutrition research between business and science, and increased focus on nutrition in Africa.

1.56 The UK uses the size and reputation of its development programme to lead international efforts in ways consistent with UK values to eliminate global poverty. Building on its strong global reputation, the UK is invited to hold a number of unique and transformational leadership positions. For example, in 2012 and 2013, the Prime Minister co-chaired the high level panel to shape the framework that follows the Millennium Development Goals after 2015. The panel set out a vision in May 2013, welcomed by the Secretary General of the UN, on how to eradicate extreme poverty from the world by 2030. The Secretary of State for International Development co-chairs the Global Partnership for Effective Development Co-operation, which aims to give development cooperation more impact per pound spent. Positions like these enable the UK to influence global development agreements and to help shape the way that countries around the world are supported to grow and prosper.

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[22] *Multilateral Aid Review 2011*, DFID, March 2011. The International Development Committee, the National Audit Office and the Public Accounts Committee all welcomed the Multilateral Aid Review. It was the first review of its kind, focusing on the costs and results delivered to improve value for money. Other international donors have since emulated the approach. See: www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/660/660.pdf; www.publications.parliament.uk/pa/cm201314/cmselect/cmintdev/349/349.pdf; and www.nao.org.uk/report/dfid-the-multilateral-aid-review/

1.57 DFID has a substantial part of its UK headquarters in East Kilbride, with more than 600 people based there, constituting almost half of DFID's staff working in the UK. DFID staff in Scotland are an intrinsic part of the UK team delivering the UK's international development effort, working in a mix of policy, programme and corporate positions. This presence would be necessarily reviewed in the event that Scotland became an independent state.

1.58 International development is reserved to the UK Government under the Scotland Act 1998, and the vast majority of the budget is administered by DFID as the lead department in the UK Government's efforts to fight global poverty. However, with agreement from the Secretary of State for International Development, the Scottish Government has been developing a small targeted programme since 2006 to complement UK Government action.

1.59 The Scottish Government's £10 million per annum programme contributes to the UK's ODA target and is directed towards areas of particular interest to Scotland. A total of £3 million is earmarked for Malawi, with which Scotland has deep and broad links, with the remainder going primarily through non-governmental organisations to a small number of countries in Africa and South Asia. The Scottish Government programme is in addition to the significant contribution Scottish taxpayers already make to Malawi through the UK Government's development budget. The UK Government, through DFID, is one of the largest donors in Malawi, spending £117.5 million in 2012/13 to improve the lives of its citizens. The UK's work in Malawi focuses on addressing poverty and inequality, supporting wealth creation and economic growth and promoting an open society with more capable, accountable and responsive governance. With UK support in 2012/13, 8,000 girls were supported in secondary school with UK bursaries, 130,000 people were provided with sustainable access to clean drinking water and an improved sanitation facility and 5,000 people accessed credit.

1.60 The existing arrangement works well with Scotland (as part of the UK) already contributing to a world leading development programme. Scotland contributes to and benefits from the UK Government's wider international development effort and expertise, but has scope to pursue complementary Scottish priorities within the agreed UK policy framework. Continuing to pool resources is the most effective way to make best use of UK taxpayers' money and to get the best return for every pound spent. Splitting the UK's unified aid programme, as the Scottish Government proposes,[23] would result in duplication of fixed costs and less money going to those who need it most.

1.61 Compared with the role it has now as part of the UK, an independent Scottish state would have to establish a very different role for itself in international development. Assuming that an independent Scottish state would aim for an aid budget of 0.7 per cent (or more) of GNI, this is likely to be considerably smaller than the UK programme that Scotland currently contributes to. However, the government of an independent Scottish state would need to develop the capacity to manage what would be a significantly larger programme than the £10 million programme currently handled by the Scottish Government. This would have important implications for the speed and quality with which an independent Scottish state could reach, or exceed, the 0.7 per cent ODA/GNI target which the Scottish Government has stated it intends to do.[24]

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[23] Humza Yousaf MSP and Minister for External Affairs and International Development, Scottish Government, in oral evidence to the International Development Committee, 31 October 2013

[24] *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

Human rights and democracy

1.62 The UK draws on its full range of relationships, networks and soft power assets described in this paper to work consistently and with confidence across the globe. The UK's values include respect for the rules-based international system, so it is natural that the UK places great emphasis on working within that system, through international and inter-governmental organisations, including the UN, the EU, the Commonwealth, the OSCE and the Council of Europe, to encourage the implementation of human rights standards and the rule of law, and to strengthen the international response to human rights violations.

1.63 The UK's reputation as a human rights defender has been built up over centuries. From the campaign against the slave trade in the early 18th century to the drafting of the European Convention on Human Rights in the 1950s and the creation of the UN Human Rights Council in 2006, the UK has been the driving force behind many advances in this area. More recently, the UK launched an initiative on preventing sexual violence in conflict and used the platform created by the UK's Presidency of the G8 in 2013, as well as its position on the UN Security Council, to secure commitments from international partners to address and tackle the issues surrounding sexual violence in conflict. The UK has the reputation, relationships, networks and experience to make a real difference to human rights and the rule of law. Scottish efforts have been and are an integral part of the UK's efforts on the international stage. The UK is one of the world's most successful multi-national and multi-cultural states. This is a major source of the UK's power and resilience, and has enabled it to see beyond national solutions to build lasting constitutional and institutional foundations.

1.64 Balancing values with other vital national interests is not always easy. Countries which the UK works closely with in some areas may not always share its values, or place the same importance as the UK does on human rights at home and abroad. Scotland, as a part of the UK, has the tools to exert the influence required and gain the access needed to further its economic, political and humanitarian interests.[25] As a new country establishing itself on the world stage, an independent Scottish state may have to be selective in its efforts to influence, and be realistic about its capacity for activism within, international organisations. The government of an independent Scottish state would have to work harder to defend direct national, commercial and other interests with larger global powers, without the guaranteed support and influence of the UK's established global position.

Working abroad to mitigate and adapt to the effects of climate change

1.65 Tackling climate change is a key UK foreign policy priority. While there is action at a national level (both the UK Government and Scottish Government have low carbon targets), that alone will not solve the problem. The UK Government plays a leading role across the world in helping developing countries to tackle climate change, including through its commitment to provide £2.9 billion from the International Climate Fund up to March 2015; with an additional £969 million of funding agreed for 2015/16 in the Spending Round 2013. Scottish Government officials and Ministers form part of the UK delegation at the annual UN international conference. At the UN Framework Convention on Climate Change Conference of the Parties (COP) at Durban 2011, the UK Government, working through the EU and along with other international partners, successfully negotiated agreement for a plan towards a global treaty. Further progress was made at the COP in Doha in 2012 and in Warsaw in 2013 towards the key objectives of the 2015 agreement, increasing ambition in the period up to 2020 and building and implementing the architecture of the global climate regime.

[25] How the UK, and Scotland as a part of the UK, does this is considered in more detail in Chapter 2.

1.66 Climate diplomacy is a recognised area of UK expertise. The FCO has a unique network of over 100 climate and energy attachés based in its posts across the world. Working closely with the FCO, DFID, Defra and the Department of Energy and Climate Change, its attachés are helping other countries to put in place the necessary policies to allow them to take more ambitious action against climate change and to build the political conditions for the new global agreement on climate by 2015.

Conclusion

1.67 In an interconnected, interdependent world, the security and prosperity of the rest of the globe have an important and tangible effect on security and prosperity at home. The UK, as one of a handful of countries with global influence and interests, can go some way to shaping its environment, identifying and tackling threats and spotting and seizing opportunities. The ways in which it does this are explored further in the following chapter.

1.68 By drawing on the resources of the UK's international trade network and expertise to support particular Scottish interests, Scotland gets the best of both worlds: the flexibility to target resources to priority areas overseas; as well as the strength and certainty provided by the worldwide reach and influence it has as an integral part of the UK. Scottish-based companies regularly form part of trade delegations which accompany UK Ministers around the world. Companies based in an independent Scottish state would lose access to the global UKTI and wider FCO networks and to the UK Government services to Scottish exporters and for investors into Scotland.

1.69 In the event of a vote for independence, an independent Scottish state would be responsible for its citizens in any country where it had representation of any kind. It is likely, at least in the short term, that people with sole Scottish citizenship would be dependent on other countries for consular assistance.

Chapter 2: The UK's international networks and influence

- The UK's diplomatic global network represents Scotland worldwide, employing over 14,000 people in 267 Embassies, High Commissions, Consulates and other offices in 154 countries and 12 Overseas Territories around the world. The costs of developing an independent Scottish diplomatic network to replicate the quality of the representation currently provided by the UK, as the Scottish Government has stated it intends to do, would be a significant cost to the Scottish taxpayer without replacing the reach and access currently provided by the UK.
- Scotland benefits from the UK status as a 'soft power superpower'. The British Council facilitated 1,000 international school partnership projects in Scotland in 2012; and through the UK's international scholarship programmes such as Chevening, where many of its scholars chose to study at Scottish universities, significant income is generated for Scottish universities.
- Scotland benefits from and contributes to the UK's bilateral relationships and representation in multilateral organisations, including the North Atlantic Treaty Organization (NATO), the UN and the EU. While an independent Scottish state would develop its own relationships and international identity, its influence could be diminished and it would likely become more dependent on alliances with other states. The UK would have no obligation, as it does now, to negotiate for and deliver on Scotland's interests.

2.1 Chapter 1 looked at the range of the UK's international policy, and its benefits for people and businesses in Scotland. It argued that there are many areas of important national interest, concerning security, the economy and values that must be pursued internationally. This chapter examines how the UK achieves its international objectives through its international networks and influence on the world stage.

2.2 The tools at a state's disposal are much more limited when operating internationally than when domestic policy is concerned. Short of coercion (military action or economic sanctions, for example) or incentivisation (for instance through financial aid), states can only achieve their objectives internationally through persuasion. To deliver tangible benefits for their citizens and businesses, and to encourage development and the promotion of human rights, successful states must build and nurture complex networks of relationships, either bilaterally or through multilateral organisations, and use them to persuade and negotiate with other countries. Much of this work is the primary function of their diplomatic services, operating through Embassies or High Commissions in foreign countries, or Permanent Representations or delegations to international institutions.

2.3 As well as formal diplomacy, the extent to which a country's arguments and negotiating positions translate into tangible outcomes is also affected by what the Harvard political scientist Joseph Nye describes as 'soft power': the essential attractiveness of a country projected through its values, culture, history, language or society.[1] This chapter examines the extent of the UK's relationships, underpinned by its diplomatic network, its soft power and its position in international organisations; and how it uses them to deliver positive outcomes for the UK. It looks at some of the considerations for an independent Scottish state in seeking to replicate a network of relationships and a capacity to engage and persuade other countries, in the event of a vote for independence.

The diplomatic network

2.4 The bedrock of global influence is a network of bilateral relationships, underpinned by active diplomacy. The UK has an extensive network of deep relationships with nations all over the world. Its strongest partnership is that with the United States (US); President Obama described the UK during the 2012 Presidential election campaign as "our closest ally",[2] and the UK and the US are each other's largest investors.

2.5 Bilateral relationships are maintained primarily by diplomats working in each other's countries. The UK has one of the most extensive and effective diplomatic networks in the world – 267 offices in 154 countries and 12 Overseas Territories, employing over 14,000 staff, with an annual budget of £1.6 billion.[3] This network represents the whole of the UK overseas, and provides a platform for promoting the UK's international political, economic and commercial interests, and the identity of the UK and its constituent parts, in every major city. Seven new diplomatic posts have been opened since 2010, three more will have opened by the end of 2013 and overall 20 offices will have been opened or upgraded by 2015.

2.6 These offices are the base for the UK in the host country. They are the places where UK officials work, but they are also places to bring together opinion formers, business leaders and lawmakers, to influence, exchange ideas, negotiate and showcase the UK's culture and products. The marketplace in which they compete for access is often crowded – 178 countries have Embassies in Washington DC,[4] 151 in Tokyo[5] and 130 in Pretoria.[6] Ambassadors, even those who represent a large country, or one that has a significant political, defence or commercial relationship with the host country, have to work hard to create access to and influence the key players in the society in which they work – the people who will be taking decisions that impact on UK interests. The UK, by virtue of its size and status in the world and the extent of its interests (as set out in Chapter 1), and its access and influence, is better placed than almost all other countries to make contacts and build relationships to deliver its objectives.

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1 Nye Jr JS, *Soft Power: The means to succeed in world politics* (New York, 2004)

2 www.bbc.co.uk/news/world-us-canada-19514925

3 Foreign and Commonwealth Office Annual Report and Accounts 2012/13, published 1 July 2013

4 *Diplomatic List,* US State Department, www.state.gov/documents/organization/205353.pdf

5 *Diplomatic List*, Japanese Ministry of Foreign Affairs, www.mofa.go.jp/about/emb_cons/protocol/

6 *Diplomatic List*, South African Department of International Relations and Cooperation, www.dfa.gov.za/foreign/forrep/preced_alp130221.pdf

2.7 The UK's Ambassadors and High Commissioners in the emerging powers and traditional markets alike lead campaigns to win new business, attract inward investment and champion the reputation of the UK economy, and work to build an environment in which UK business can thrive. The UK's diplomatic network is working to help UK companies overseas to win contracts, secure investment to the UK and break down barriers to trade; promote the UK's economic and sectoral strengths; build coherent collective international responses to shared challenges; and understand, explain and influence to our advantage economic, financial and political conditions in other countries. UK Ministers have led a number of successful trade missions overseas highlighting investment opportunities and contracts worth hundreds of millions of pounds and safeguarding thousands of jobs in the UK.

2.8 The UK diplomatic network also provides a platform for other parts of the government working overseas. These include:

- military staff, including defence attachés, in 70 missions, working with allies on capabilities ranging from intelligence sharing, to access to training sites for UK troops to prepare for overseas operations, and promoting Scotland's defence industry;[7]
- the National Crime Agency (NCA), which has an international network of over 130 officers based in around 40 countries, enabling an operational reach across over 120 countries for law enforcement agencies in Scotland and in the rest of the UK;
- UK Trade & Investment (UKTI), which has over 1,200 staff in 169 offices in over 100 countries;
- the Department for International Development (DFID), with 1,445 staff working overseas, over 1,300 of whom are based in DFID's 28 focus countries;
- the Science and Innovation Network, funded by the Foreign and Commonwealth Office (FCO) and the Department for Business, Innovation and Skills (BIS), with 90 staff in 46 offices in 29 countries and territories; and
- the British Council, which is represented in 110 countries.

2.9 In some countries, the UK will share offices with other international partners. Although local arrangements vary, generally each country's diplomats within the shared building will have separate office space, IT systems and communications, and will only share some common space, such as a reception area, and the perimeter security. For example, in Beirut, the UK is located in a multi-national building where diplomatic representatives of Australia, Japan, Brazil, Denmark and Norway are also tenants. Each mission has its own office and a separate, independently negotiated lease. Security costs are shared, which the UK and Australian Embassies manage. In Dar es Salaam the UK co-owns the building housing its diplomatic premises with Germany, the Netherlands and the European External Action Service; and in Port of Spain, the UK rents a proportion of its High Commission to Germany. The sharing and recovery of costs is on a full economic basis and the amount involved is usually included in the individual licence agreements drawn up by the FCO, which decides how much to charge.

2.10 Scotland benefits directly from the UK's international network. The UK offices described above work to achieve the international policy objectives that benefit the whole of the UK, including promoting Scottish companies and products, its culture, and Scotland as a destination for investment, tourism and study. Nine UK offices also play host to officials

[7] Scottish Development International states the value of this industry to Scotland as "in excess of £1.8 billion a year", www.sdi.co.uk/sectors/aerospace-defence-marine/adm-sub-sectors/defence.aspx

from the Scottish Government or Scottish Development International (SDI), who can use the profile and access gained from belonging to the UK diplomatic mission specifically in the pursuit of Scottish Government priorities.[8] The Scottish Government recognises the value of the UK's diplomatic network. Its International Framework document (updated on 22 October 2012) acknowledges the importance of the UK Government's representation overseas in delivering for Scotland: *"We will continue to make full use of the UK resources at our disposal. In particular, we will work with the Foreign and Commonwealth Office network and UK Trade and Investment around the world to maximise business, cultural and educational opportunities for Scotland. We will also engage directly with the British Council, so that we can effectively showcase Scotland's cultural and educational excellence abroad"*.[9]

2.11 The FCO has an important role to play in ensuring VIP visits to and from the UK, including Scotland, run smoothly. For large events such as the London 2012 Olympic and Paralympic Games (when the FCO managed the visits of 121 Heads of State or Government) or for a single visit by a foreign Head of State, the FCO has a unique record of organising highly professional visits. For example, the FCO worked with the Scottish Government during the visit to the UK by the President of Malawi in March 2013 and this joint planning helped to deliver a successful visit.

2.12 The FCO also has a key part in delivering a secure and successful Commonwealth Games in Glasgow in 2014. It has a significant amount of experience to offer from the London 2012 Olympics, including on dignitary management, diplomatic engagement and the international aspects of accreditation. The FCO is providing the Glasgow 2014 Organising Committee and the Scottish Government with advice, unavailable from other sources, on a range of complex and sensitive international political issues which will contribute to the smooth running of the Commonwealth Games.

2.13 In addition, the FCO's overseas posts in Commonwealth countries and Overseas Territories will play a key role during the international leg of the Queen's Baton Relay and will help to deliver a comprehensive public diplomacy campaign around the Games. The campaign will promote the UK – with a focus on Glasgow and Scotland – as the destination of choice for trade, education and tourism. It will also promote UK and Commonwealth values.

An independent Scottish state's diplomatic network

2.14 The current Scottish Government has indicated that it would seek to build a separate Scottish diplomatic network of 70 to 90 missions for an independent Scottish state, on the basis of its existing SDI offices in 15 countries outside the UK and the Scottish Government offices in Brussels, Washington and Beijing, which form part of the UK's representation.[10] Only eight of the existing SDI offices are in capital cities.[11] The SDI's remit is solely to promote international trade and inward investment opportunities for Scotland; it currently has no role to play in foreign policy, consular or bilateral relations with the host government, which is the responsibility of the UK's diplomatic representation.

8 The Embassies in Washington, Beijing and Dubai; the High Commission in Delhi; the Deputy High Commissions in Mumbai and Hyderabad; the Consulates-General in Toronto, Rio and Hong Kong.

9 *Scotland's International Framework*, Scottish Government, October 2012, www.scotland.gov.uk/Publications/2012/10/3096/4

10 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

11 Beijing, Copenhagen, Moscow, New Delhi, Paris, Seoul, Singapore, and Tokyo, www.sdi.co.uk/about-sdi/office-locations.aspx

2.15 An independent Scottish state's diplomatic service would also need to staff and accommodate missions to whichever international organisations it would seek to join. Achieving a network of around 100 missions from this basis – acquiring property, hiring and training staff, and procuring secure communications equipment, for instance – would be expensive and take a long time, with the burden of funding this falling to the Scottish taxpayer. Scottish Government staff currently based in UK Embassies and High Commissions overseas may be required to find new bases from which to represent an independent Scottish state. Annex D sets out the level of diplomatic representation of states of a similar size to that of an independent Scottish state.

2.16 An independent Scottish state would not be entitled by right to any UK diplomatic premises, equipment or staff. As set out in *Scotland analysis: Devolution and the implications of Scottish independence*, the legal position is clear: the bodies that support the UK now, for example the Bank of England, would continue to operate on behalf of the remainder of the UK on the same basis as before Scottish independence.[12] If an independent Scottish state wanted to continue to receive services from UK institutions or utilise them to carry out functions in relation to Scotland, that would be a matter for negotiation and would have to be agreed with the continuing UK.

Soft power

2.17 By sharing the UK's culture and values, and by making the most of the assets which attract others, the UK builds trust and credibility in the international community, and attracts the brightest and best to choose the UK over its competitors. The UK's soft power – the ability to influence others through the power of attraction – makes a vital contribution to its influence and reputation around the world.

2.18 The UK's soft power arises from a wide range of assets including, among others, the UK's heritage, culture and language, the strength of its education and cultural sectors, the promotion of free speech and parliamentary democracy, thriving civil society and cultural diversity. While the UK Government cannot, and does not, seek to control all of these directly, it can support them and harness their strengths, for instance through the UK's international scholarships, aid programmes or collaboration with public diplomacy partners including the British Council, which provide an unrivalled platform for the sharing of UK culture and values with people from other countries. The UK is regularly recognised in international comparisons for its outstanding tradition of nurturing these activities and networks, and YouGov research has described the UK as a 'soft power superpower'.[13] The UK brand is also considered to be strong in comparison with other nations around the world.[14]

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12 *Scotland analysis: Devolution and the implications of Scottish independence*, HM Government, February 2013, www.gov.uk/government/publications/scotland-analysis-devolution-and-the-implications-of-scottish-independence

13 *Britain: A soft power super power?*, YouGov, October 2012, yougov.co.uk/news/2012/10/15/britain-soft-power-superpower/

14 Anholt-GfK Nation Brand Index 2012, www.gfk.com/Documents/Press-Releases/2012/20121023_NBI_2012_final.pdf

Building the UK's brand: the GREAT campaign

The GREAT campaign was launched in 2011 to maximise the economic benefits to the UK from the unprecedented levels of attention associated with the events of 2012. Drawing the national promotion efforts of UKTI, VisitBritain, the British Council and the FCO into a single campaign, it aims to deliver significant and long-term increases in trade, tourism and investment in support of the UK Government's prosperity agenda. The campaign has made an impact in its ten priority markets (Australia, Brazil, Canada, China/Hong Kong, France, Germany, India, Japan and the US) and is currently being targeted at new emerging markets such as South Korea, Mexico, Indonesia, Turkey, Poland and emerging Europe.

Scotland is being actively marketed under GREAT: some of the advertising features images of Scotland, such as Glenfinnan Viaduct, the University of Edinburgh and the Edinburgh Tattoo, with a Scotland message, while trade promotions feature Scottish companies such as Touch Bionics.

The UK Government has committed a further £30 million to continue GREAT into 2014/15. This will drive the campaign forward in key markets where GREAT is performing well, particularly China, India, the US and Brazil. Tourism activity will be extended to the Gulf, while trade and investment-focused activity will also target new emerging markets where GREAT can help the UK gain a competitive advantage, including Russia, South Korea, Mexico, Turkey, Indonesia, Poland, Hungary, the Czech Republic, Slovakia and Romania. The VisitBritain target return on investment for 2013/14 is that every pound spent on this campaign will generate £15 spent in the UK.

2.19 Through its soft power, the UK is one of the few countries that can convene alliances to deal with some of the greatest international challenges of our time. It does this through framing the agenda, building partnerships and responding in an agile way to challenges as well as opportunities. Moreover, it does so in a way that has real impact: the initiative on preventing sexual violence in conflict has demonstrated the UK's ability to mobilise the international community to take action that makes a difference on the ground, resulting in the clearest statement to date by the international community that these crimes must, and will, be confronted. The London 2012 Olympic and Paralympic Games were extraordinarily successful examples of the projection of UK soft power.

Preventing Sexual Violence Initiative (PSVI)

The UK has led an international campaign to end the culture of impunity for sexual violence in conflict. In May 2012, the Foreign Secretary, together with the Special Envoy of the UN High Commissioner for Refugees, Angelina Jolie, launched an initiative on the prevention of sexual violence in conflict. The international campaign aims to end the culture of impunity for sexual violence crimes and replace it with one of deterrence by building national and international capacity to tackle sexual violence in conflict.

Working with the UN Special Representative for Sexual Violence, Zainab Bangura, and the Special Envoy, the UK has increased international focus on the eradication of sexual violence in conflict. The UK has held a series of high profile events, including a projection of the PSVI campaign messages onto the Coliseum in Rome on International Women's Day, participation in the 16 Days of Activism Against Gender Violence in the UK, and a screening of the film *In the Land of Blood and Honey* in Tokyo. The Foreign Secretary's visit to the Democratic Republic of Congo (DRC) with Angelina Jolie, who directed the film, generated extensive, positive UK and international media coverage.*

The proactive use of UK networks, including NGOs, as well as the UK's strong convening power, has resulted in further commitments from international partners. Under the UK's leadership, in April 2013 the G8 Foreign Ministers adopted a historic Declaration on Preventing Sexual Violence declaring that rape and serious sexual violence in conflict are grave breaches of the Geneva Convention – a vital step towards eradicating safe havens for perpetrators. This international effort is accompanied by engagement with countries including Bosnia, DRC, Kosovo, Libya, Mali and Somalia, including joint funding with the United Arab Emirates to support PSVI practical action in Somalia, to strengthen national capacity to investigate allegations of sexual violence and support survivors. On the Syrian borders alone, UK experts have trained over 40 healthcare professionals and human rights defenders who are helping hundreds of Syrians, including survivors of sexual violence.

The UK has promoted its messages through an extensive digital diplomacy campaign. During the UN Security Council Debate in June 2013, the hashtag #TimeToAct was used over 6,000 times on Twitter, reaching an estimated 5 million accounts. The UK Government built on this in the run-up to the UN General Assembly with extensive social media activity, including launching a Thunderclap campaign which reached an audience of nearly 2.5 million people, to encourage countries to support the new Declaration of Commitment to end sexual violence in conflict, which was endorsed on 24 September 2013 in New York by 119 countries. The Declaration sets out practical and political commitments to end the use of rape and sexual violence as a weapon of war. It is the clearest statement to date that the international community must and will confront these crimes.

* http://storify.com/foreignoffice/this-week-at-the-foreign-office-16/elements/f8fd39d6b6ca0f5d87c1f75e

2.20 The UK continues to explore new ways to inform and influence both traditional partners and new audiences including civil society, businesses, pressure groups, UK citizens and diaspora communities. This section explores different ways in which the UK uses various aspects of its soft power, and channels beyond traditional government-to-government diplomacy, to achieve its international objectives.

The British Council

2.21 The British Council is an FCO non-departmental public body and a charity. It shares the UK's great cultural assets – its language, arts and education – with the rest of the world and supports the reciprocal exchange of ideas and culture to bring the rest of the world to the UK. Through this work the British Council builds trust in the people and institutions of the UK, supporting global prosperity and security, and encourages people to visit, study in and do business with the UK. The British Council received £162 million in FCO Grant in Aid funding for 2013/14. It has offices in Belfast, Cardiff, Edinburgh, London and Manchester and has served the whole of the UK for more than 75 years.

2.22 The British Council has an extensive international network with offices in over 100 countries including:

- Brazil, China, India, Indonesia, Mexico, Turkey and other high growth countries that offer much potential for the UK's businesses and institutions;
- fragile and post-conflict states such as Libya, South Sudan, Iraq and Afghanistan that are strategically key to the UK's security;
- marginalised places such as Burma and Zimbabwe where it builds capacity and international connections for those who want access to the wider world; and
- Europe, the US, Japan and the Commonwealth where it works to maintain, renew and enrich traditional ties.

2.23 In 2012 more than 40,000 international students came to Scotland, representing over 12 per cent of the UK's share of the market.[15] The British Council supports access for students, academics and researchers to high quality international opportunities into and outward from the UK. British Council Services for International Education Marketing supports the international market intelligence needs of UK institutions across 46 overseas markets. In 2012, it served over 300 UK colleges, schools and universities and reached 250,000 students.[16] The British Council's Education UK website received over 2 million unique visitors researching study opportunities in the UK.

2.24 The British Council also supports outward student mobility, with the number of students from Scottish higher education institutions (HEIs) taking advantage of the European Erasmus programme having increased by 34 per cent in the last four years.

2.25 The British Council supported missions by senior academics from Scottish HEIs to China and India, leading to £1.09 million of new Scottish business. Scottish HEIs are now linked with 52 HEIs in China, 47 in India, 26 in the US, 15 in Canada, 14 in Pakistan and 13 in Russia.[17]

2.26 DFID will contribute £17 million over three years to the £42.9 million UK-wide Connecting Classrooms programme, which is managed by the British Council. DFID funds to the Connecting Classrooms programme support links between schools in the UK and in 29 countries in Sub-Saharan Africa and South Asia, professional development for teachers and school heads both in the UK and overseas, and awards to schools which demonstrate a strong global dimension in their curriculum.

2.27 In 2012/13 the British Council supported over 1,000 school partnerships in Scotland through programmes such as Connecting Classrooms, Comenius and eTwinning. Charleston Academy in Inverness, for example, has been partnered with Lotsane Senior Secondary School in Botswana since 2010. Head teacher Chris O'Neill explains that: "Connecting Classrooms will enable pupils to learn about the world around them, about

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15 *Study in Scotland*, www.scotland.org/study-in-scotland

16 *British Council Annual Report 2012/13*, British Council, www.britishcouncil.org/sites/britishcouncil.uk2/files/annual-report-2012-13.pdf, page 24

17 *Scotland Fact File*, British Council, www.britishcouncil.org/about/scotland

the facts of poverty that face children their own age in developing countries, and how education can help eradicate poverty. It will also benefit teachers by enhancing their professional skills."[18]

2.28 The British Council also brings an international dimension to the Edinburgh Festivals, creating overseas opportunities for Scottish artists, companies and audiences. In 2013 it brought 50 world renowned writers to take part in the Edinburgh World Writers' Conference. It also helped the National Youth Orchestra of Iraq to play in Scotland and supported a series of South African performances as part of the Edinburgh Festival Fringe.

2.29 Through international arts programmes such as Transform, a four-year programme embracing the opportunities of the Olympic handover from the UK to Brazil, the British Council has brought the best of Scotland's arts and creative industries to new audiences around the world. The 2013 Festival Cultura Inglesa in Sao Paulo, for example, included six productions from the UK – five of which were from Scotland. To date Transform has reached an audience of more than 932,000. In 2014 the British Council will be holding major arts seasons in Russia and South Africa which will build on the successes of Transform and the 2012 UKNow Festival in China. By sharing the best of Scottish culture with audiences around the world, the British Council showcases Scotland as an attractive destination for tourism, education and investment.

International scholarships

2.30 The UK's scholarship programmes draw on UK expertise in education to help build a strong, international network of friends of the UK who will rise to increasingly influential positions over the years. They are key features of UK soft power diplomacy and give scholars both a first-class academic qualification and exposure to UK values, culture and diversity.

2.31 The UK Government operates three significant scholarship programmes: Chevening, Marshall and Commonwealth. Of these, the Chevening Scholarships programme is the largest, offering postgraduate scholarships to students in 118 countries. In the 2013/14 academic year, approximately 1,400 scholarships from all three schemes were awarded worldwide. Scholars are fully funded, often in partnership with the university and private sectors. They study at a wide range of UK universities including Scottish universities, generating significant income.

2.32 The DFID-funded Commonwealth Scholarships programme also sends large numbers of scholars to Scottish universities. The Marshall Scholarships programme is for US citizens only and has been in operation for more than 60 years. It is regarded as one of the most prestigious scholarship programmes in the US. Chevening's alumni network of 42,000 and Marshall's network of 1,700 are influential and high achieving networks.

2.33 These programmes operate alongside Scotland-specific initiatives such as the Scottish Government's Saltire Scholarships programme, which makes 200 awards of £2,000 each annually for students from Canada, China, India and the US. UK-wide schemes, with wide international coverage and attraction to international students, therefore complement and add value to schemes specific to Scotland.

[18] www.highland.gov.uk/yourcouncil/news/newsreleases/2013/March/2013-03-22-01.htm

The transparency revolution

The UK used its leadership of the G8 in 2013 to drive an ambitious push for greater transparency, freer trade and fairer taxes (the 3Ts). On 15 June, the UK hosted a high profile 'Open for Growth' event to catalyse a worldwide movement towards greater transparency. The 'Open for Growth' event occurred before the main G8 summit, and the UK's use of soft power at this event – including making use of its diplomatic network particularly with African governments, and engaging with a wide range of business and non-governmental organisations (NGOs) – helped pave the way for the ambitious outcomes at the G8 summit in support of UK values and economic interests.

Developing countries, international organisations, business and civil society, and G8 members participated at senior level, and launched ambitious individual and collective commitments on the 3Ts. The G8 digital platform provided access across many channels, including live video streaming, live tweeting from UK Government accounts and the use of a unique hashtag for the event.

One of the event's themes was how to achieve greater transparency and accountability through the supply of government data and the use of digital technology. This resulted in commitments on open data which drive growth and innovation, release economic and social benefits, and promote new businesses and efficiencies. Mozilla launched a UK-wide campaign to inspire a generation of young people to create, as well as use, digital technologies. The World Bank announced its 'Open and Collaborative Private Sector Initiative' which will use open data to accelerate support for economic growth. The Open Data Institute announced an Open Data Certificate which will rate or classify the quality of any dataset published on the internet and will be available to anyone to use.

Science and innovation diplomacy

International collaboration in science and innovation is vital for meeting policy challenges on a global scale. Challenges such as pandemic disease, climate change and food security require the ability to engage other governments with, and through, science. The UK Science and Innovation Network (SIN) is made up of more than 90 staff, in 46 different locations in 29 countries and territories. SIN officers engage with the local science and innovation community in support of UK policy overseas.

The China SIN team brokered the relationship between the University of Edinburgh and Peking University enabling them to establish a laboratory for collaboration on stem cell research. The SIN team in Guangzhou also used FCO funding to fund two visits in 2012 by the Edinburgh team to meet local government, academics and industries. *Scotland analysis: Science and research** examines this area in more detail.

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* *Scotland analysis: Science and research*, HM Government, November 2013, www.gov.uk/government/collections/scotland-analysis

Defence diplomacy

The UK Government launched the UK's International Defence Engagement Strategy in February 2013.* Defence engagement is the means by which the UK uses its defence assets and activities, short of combat operations, to achieve influence.** Its aims are to protect UK citizens abroad, promote and protect UK prosperity, understand other nations' security objectives, deter threats to UK interests, and build international capability, capacity and will among UK allies.

Defence engagement has achieved significant results, for example, in the Western Balkans. The UK is leading the 'Changing Perception' project in Serbia, a NATO-neutral Partner for Peace. Serbia is keen to play a role in international security by supporting EU and UN peacekeeping missions as a responsible international partner. The UK military is working closely with the Serbian Government and military to help develop Serbia's role in fostering regional and wider stability and security, and help improve the Serbian public's view of working with NATO and within the framework of Euro-Atlantic cooperation.

Senior UK military personnel are also working with the Kosovo Government and security forces to help build a civilian-led military administration based on international law, doctrine and standards. This is having a positive impact on Kosovo's relationship with NATO, its approach to national and regional security issues, and the bilateral relationship between the UK and Kosovo. It is helping Kosovo develop into an effective Euro-Atlantic security supplier and partner in the region.

Ten years ago the Peace Support Operations Training Centre was established in Sarajevo; this was a UK concept which drew on multi-national donor funding support. It is now regarded as one of the top five international training centres in the world, delivering high quality NATO and UN-accredited training, rooted in UK values and military ethos, to students across the Western Balkans. This has helped strengthen UK political and military influence in the region, created a more professional cadre of pro-NATO, pro-UK Bosnian officers and non-commissioned officers, improved cross-border relations as a result of joint training and enabled well trained Bosnian troops to share the burden of security duties in Helmand province, Afghanistan.

* UK Government International Defence Engagement Strategy, February 2013, www.gov.uk/government/publications/international-defence-engagement-strategy

** Also discussed in *Scotland analysis: Defence,* HM Government, October 2013, www.gov.uk/government/collections/scotland-analysis

International organisations and groupings

2.34 Many of the UK's international objectives are pursued through its activity in multilateral fora – either formal international organisations such as the UN, or more informal groupings such as the G8. The UK sits at the nexus of a huge variety of international groupings, of many of which it is a founder member, leading player or major contributor. It uses its leading role in these organisations to shape the international legal framework, and improve security and prosperity across the world.[19]

[19] See Chapter 1 (paragraphs 1.1–1.22) for more details on the policy goals the UK pursues through its membership of international organisations and groupings.

The United Nations

2.35 The UK was a founder member of the UN, which was established in 1945 as the centrepiece of the new global order following the Second World War. The UN remains a key part of the international system to this day, and influence within it is crucial to a country's ability to shape the global environment and promote its interests.

2.36 The UK has a strong record of contributing to the UN's activities and through it plays a key role in the world's security and development. It is one of the five permanent members of the UN Security Council, which gives the UK influence at all levels in the UN. Its global diplomatic network is also invaluable, giving it the authority to address matters of international peace and security in the Security Council. The UK is also well represented on UN committees, giving considerable leverage on issues that affect its citizens. The UK makes a significant contribution to UN peacekeeping and is one of the top five financial contributors, paying around £365 million in assessed contributions in 2011/12, or nearly 7 per cent of the total peacekeeping budget. The UK also contributes nearly 270 armed forces personnel to UN peacekeeping operations as well as providing police and civilian experts.

2.37 If an independent Scottish state were to join the UN it would have to pay a share of assessed contributions. In comparison with countries that have a similar population size and economy to those of an independent Scottish state (Denmark, Austria, Norway, Slovenia or Ireland), it is estimated that Scotland's assessed contribution, had it been a UN Member State in 2012, would have been between those of the highest and lowest paying comparator countries:

Table 2.1: UN contributions of comparator countries

Budget (total in US$ millions)	Minimum contribution of comparator countries (US$ millions)	Maximum contribution of comparator countries (US$ millions)
UN Regular Budget (2,700)	12.9 (0.48%)	18.0 (0.67%)
UN Peacekeeping Budget (7,500)	50.6 (0.67%)	63.8 (0.85%)

2.38 If an independent Scottish state wished to deploy its own military forces in UN peacekeeping operations, it would bear the majority of the costs; the UN reimbursement for troop contributions is modest, based on additional costs only.

2.39 The UK delivers for Scotland as a large and influential UN member which is party to most of the UN's Specialised Agencies – see Annex B for a detailed analysis. An independent Scottish state's influence would be dictated by its administrative and financial capacity to contribute to the work of Agencies, which may be less than that of the UK at present. Therefore an independent Scottish state may have less influence in some Agencies than Scotland currently does as part of the UK.

2.40 The UK's size and the range of its expertise mean that its voice is heard right across the range of international cooperation, from scientific endeavours such as CERN and the European Space Agency, to the bodies that keep the world communicating such as the Universal Postal Union and the International Telecommunication Union. Other examples include supporting the work of the World Health Organization on the International Health Regulations which help prevent and respond to acute public health risks that have the potential to cross borders and threaten people worldwide and which have helped prevent pandemics, such as severe acute respiratory syndrome (SARS) and avian influenza, from taking hold in any part of the UK; and ensuring that the international intellectual property system is balanced and effective, and best able to protect the UK's intellectual property rights through the World Intellectual Property Organization.

The Arctic

2.41 As the most northerly country outside the Arctic itself, the UK has a long association with the Arctic, a region that matters to Scotland. The UK is an active player in the Arctic and has a long history of working closely and cooperatively with the eight Arctic States (Canada, Denmark, Iceland, Finland, Norway, Sweden, Russia and the US), indigenous peoples and others on the issues facing the Arctic, both bilaterally and multilaterally in international fora.

2.42 The impact of climate change on the Arctic region has been significant. Arctic sea ice is shrinking rapidly – its extent in 2012 was the lowest on record. These changes are now thought to have the potential to affect European weather and climate, as well as the fish stocks that are economically so important to countries in the north Atlantic and the North Sea. Reductions in sea-ice cover also mean the sea routes to and from Asia are becoming increasingly navigable; and improvements in technology mean the Arctic's potentially large reserves of oil, gas, metals and rare earths are becoming more accessible. The Arctic is also an increasingly attractive destination for British tourists. Responding to these changes, while supporting rigorous protection of the environment, is one of the many challenges facing the region and the wider world.

2.43 The UK has a strong interest in these developments. It also has a large Arctic science community and extensive polar assets involved in Arctic research, including a research station in Svalbard, ice-capable research vessels and a fleet of research-capable aircraft, which have given the UK a major role in forming the international community's response to the changing circumstances of the Arctic. The UK has been an observer state at the Arctic Council, the pre-eminent regional forum on environmental and sustainable development issues in the Arctic, since its inception in 1996. During that time, UK scientific expertise has contributed extensively to the work of the Council, including on issues such as Arctic biodiversity, Arctic Ocean acidification, persistent organic pollutants and climate change, to help inform Arctic policy development.

2.44 The UK's engagement in and understanding of the region also means British companies are well placed to undertake responsible business activity in the Arctic, which the UK Government supports and facilitates. UKTI's Nordics and Baltics Network (NBN) has identified high value opportunities in the Arctic in mining, shipping, oil and gas and tourism sectors, and is supporting UK businesses, for example through an event to focus on Arctic mining opportunities in Finland, Norway and Greenland, to be held in December 2013. UKTI NBN teams work closely with the two SDI officers in Norway and Denmark to ensure that Scottish companies can benefit from the UK's extensive networks and knowledge of the opportunities that exist in the region.

2.45 As *Scotland analysis: Defence* shows, the UK also has clear security interests in the Arctic and is an active player in the defence of the region, notably through the Arctic Security Forces Roundtable, which aims to enhance multilateral Arctic security and safety operations and adapt to the changing environment and emerging missions in the Arctic.[20]

2.46 In October 2013 the UK Government published a policy framework document on its Arctic policy setting out the detail of its interests in the Arctic, how it will work with Arctic States and the wider international community, and what expertise the UK can offer to help meet some of the long-term challenges facing the region.[21]

[20] *Scotland analysis: Defence,* HM Government, October 2013, pages 63–64

[21] *Adapting to Change: UK policy towards the Arctic*, HM Government, October 2013

An independent Scottish state and international organisations

2.47 As set out in the Introduction, an independent Scottish state would be required to apply or negotiate to become a member of whichever international organisations it wished to join. Each organisation or grouping has its own criteria and processes for achieving membership. Membership of the UN would be fairly straightforward, although an independent Scottish state would not be a permanent member of the UN Security Council, as the UK is, as the five permanent members of the UN Security Council are fixed by Article 23 of the UN Charter. Other organisations, though, such as the EU and NATO, have stringent criteria and pre-conditions and a set procedure for negotiating the terms of membership, which may involve the unanimous approval of the existing members.

2.48 In no case would membership be automatic. Membership of one organisation may also be dependent on being a participant in another; for example, a country wishing to join the European Bank for Reconstruction and Development must be a member of the International Monetary Fund, and membership of the European Investment Bank is dependent on membership of the EU. Membership of each of the individual UN Specialised Agencies must be applied for separately once a country has become a UN Member State.[22]

2.49 There are associated start-up costs for new members of international organisations in additional to annual subscriptions. For example, in order to take up membership of the UN, an independent Scottish state would be required to establish an office in New York, and appoint a Permanent Representative and a supporting team to represent it in UN meetings. This would also be the case for membership of NATO.

2.50 Annex C sets out and discusses in more detail the main international organisations of which the UK is a member. In many of them, the UK is permanently represented in the central decision making structures, such as the Security Council of the UN or the Board of Governors of the International Monetary Fund; an independent Scottish state, if it were to become a member of these organisations, would either have to seek election to these bodies or be represented on them by others. Membership of all organisations also requires subscriptions or other financial contributions. Broadly speaking, costs arising from an independent Scottish state's membership of the Commonwealth might be comparable with those of New Zealand, which currently pays around £446,000 per annum, with an approximate further £3.4 million in discretionary funds. There would be a likely cost of €3 million per annum to the non-discretionary Council of Europe budgets.

[22] More detail on the accession processes of the UN Specialised Agencies, and other aspects of their membership and work, is set out at Annex B.

Conclusion

2.51 The analysis in this chapter has set out the UK's role on the international stage. People in Scotland are currently well represented as part of the UK at an international level; in an independent Scottish state the capacity of their international representation to defend or promote their interests would be reduced.

2.52 The UK has one of the highest international profiles and a global reputation. Scotland benefits from its own unique brand; it also benefits from the additional attraction the UK has to tourists, investors and students right across the world. The UK uses its soft power to promote Scottish cultural events internationally, bring some of the brightest international students to its universities through its large scholarship programmes, and create links between schoolchildren at more than 1,000 Scottish schools with partners overseas.

2.53 As a new state, an independent Scotland could seek to develop its own bilateral relationships and membership of whichever international institutions and organisations it wished to become a member of. It would have to decide which international organisations were priorities for it to be a member of and, following the criteria for membership being met, bear the start-up costs of initiating its representation or membership and ongoing subscription costs. An independent Scottish state would be unlikely to wield such influence as it enjoys as part of the UK.

Chapter 3:
The European Union

- The UK uses its influence within the EU to Scotland's advantage on a whole host of issues of particular interest to people and businesses in Scotland, such as budget contributions, fisheries, agricultural subsidies and Structural Funds. Scotland benefits from this and from the UK's strong voice in Europe, where it contributes to and participates in discussions and negotiations from its position within the UK.
- The EU is a treaty-based organisation and the UK – not Scotland – is the contracting party to the Treaties of the EU. Independent legal opinion sought and published by the UK Government indicates that, as the remainder of the UK would be the same state as the existing UK with the same international rights and obligations, its membership of the EU would continue on existing terms. That includes the important opt-outs the UK has secured, allowing it to keep the pound and control of its borders and immigration policy, as well as a rebate from the EU budget, which sees a rebate of over £3 billion to the UK taxpayer each year.
- By contrast, since an independent Scottish state would be a new state, it would have to go through some form of accession process to become a member of the EU, which would involve negotiations on the precise terms of its membership. It cannot be assumed that Scotland would be able to negotiate the favourable terms of EU membership which the UK enjoys. Following the introduction of this *acquis* – the body of EU law and practice that accession states are expected to adopt – all new EU Member States have been required to commit to joining both the euro and Schengen. The Scottish Government's stated intention to retain the pound and join the Common Travel Area (CTA) is at odds with the EU's long-established conditions of EU accession, and is not in the Scottish Government's gift. It would have to convince all 28 EU Member States to grant unanimous approval to change these conditions.
- Some Member States may be unwilling to grant opt-outs to an independent Scottish state on measures which they have had to adopt themselves. Others have their own independence movements to consider, which may influence how they view an independent Scottish state's membership of the EU. Scotland's negotiations to join the EU could be complex and long, and the outcome could prove less advantageous than the status quo.

- As part of any accession process, an independent Scottish state would need to negotiate the terms under which it contributes to, and accesses funds from, the EU budget. To illustrate the implications of independence, the impacts of three scenarios have been considered over the course of 2014–20.
- In respect of contributions to the EU budget, Scottish taxpayers currently derive a substantial benefit from the UK's rebate. However, given the negotiating realities of the EU, it would be extremely difficult for an independent Scottish state to negotiate its own budgetary correction on accession (something no other Member State has ever done). Furthermore, it is inconceivable that an independent Scottish state would secure a correction as substantial as the UK rebate. Instead, as a new Member State it would have to contribute to the UK rebate like other Member States. Without a budgetary correction, it is estimated that an independent Scottish state would contribute a total of around €12.9 billion to the EU budget over the next Multiannual Financial Framework (MFF). This is around €2.9 billion higher (€1,100 more per household) over 2014–20 than if Scotland continues to be part of the UK.
- Following recent decisions by the UK Government on intra-UK allocations of EU budget receipts for 2014–20, Scotland will receive €228 million more in Structural Funds than if it were an independent state. On the Common Agricultural Policy (CAP) an independent Scottish state's receipts are uncertain and would depend on the terms of accession, which would have to be agreed by all 28 Member States. Scotland has been allocated €3.6 billion in Pillar 1 CAP receipts for 2014–20, and the Scottish Government has claimed that an already independent Scottish state would be receiving direct payments of €196 per hectare by 2020, increasing its allocation in real terms by up to €950 million over 2014–20.
- However, the key question is what would happen to Scottish CAP receipts if it were to become an independent Member State of the EU. With the EU budget ceilings agreed to 2020, any increase in Scottish CAP receipts would be at the expense of other Member States, all of which would need to agree to Scottish accession. There is also a risk that an independent Scottish state would be required to phase in receipts, in line with recent accessions. Given all the uncertainties, this paper considers two independence scenarios over 2014–20 in respect of the EU budget – one where CAP receipts increase by €950 million compared with Scottish receipts within the UK, and one where they fall by €1.2 billion.

3.1 This chapter considers Scotland's relationship with the EU. It examines the benefits to people and businesses in Scotland through the UK's position as one of the largest EU Member States and the favourable terms of membership which the UK enjoys. It also considers the process for states wishing to join the EU and the complexities inherent in the negotiations for an independent Scottish state's EU membership, given the terms which the current Scottish Government has said it aims to secure. Finally, it looks at the costs to people in Scotland in the event of an independent Scottish state joining the EU.

How the EU works

The Council of the EU: The Council is the EU body which directly represents the governments of the Member States. In some areas, such as the EU's finances, taxation, membership of the EU, foreign policy and defence policy, it makes decisions by unanimity; that is, each Member State has a veto over EU action. In most others, including decisions on the rules governing the European Single Market, decisions are taken by a qualified majority voting system. Following changes in 2014, voting in the Council will reflect the respective size of the Member States' populations. Therefore the UK, with a population of 62 million, of a total EU population of 504 million, will have just over 12 per cent of the vote. Scotland has 1 per cent of the EU population.

The European Council is the grouping of the leaders of the Member States and the President of the Commission, chaired by a permanent President.

The European Parliament: Members of the European Parliament (MEPs) are distributed according to a set of criteria outlined in the Treaties; this includes, in addition to maximum and minimum caps on the number of MEPs from any given Member State, a requirement for representation of citizens to be digressively proportional. Of the 766 MEPs in the current session of the European Parliament (2009–14), the UK has 73, the third largest delegation behind Germany with 99 and France with 74. Of these 73 seats, six are for MEPs representing Scotland.

The European Council recently adopted a decision on the composition of the European Parliament for the 2014–19 session. There are currently a number of derogations in place which end at the 2014 elections; the composition of the European Parliament therefore needed to be revisited to ensure the total number of MEPs respected the cap outlined in the Treaties of 751 MEPs, and reflected the other criteria set out in the Treaties, such as the cap on MEPs at 96 for any one Member State. The UK will continue to have 73 MEPs during the 2014–19 parliamentary term. Composition will be revisited again in advance of the 2019 European Parliamentary elections.

Further enlargements of the EU will have to accommodate new Member States' delegations within the cap, and other Treaty criteria. It is impossible, therefore, to say with any certainty how many MEPs a new Member State would get.

The European Commission: The European Commission is the EU's executive arm, governed by a College of Commissioners composed of one national of each Member State, regardless of that Member State's population size, of whom one is the President.

The Court of Justice of the European Union (CJEU): All Member States nominate one judge to each of the two Chambers of the CJEU, the Court of Justice and the General Court, regardless of population size.

The UK in the EU

3.2 The UK joined the European Economic Community (EEC), as it then was, in 1973, alongside Ireland and Denmark, as part of its first enlargement from the original six Member States. The UK has been a key player in the EU ever since.

3.3 As one of the largest Member States, the UK's size and importance are reflected in the composition of the EU's two legislative bodies: the Council of the EU and the European Parliament. The UK currently has the equal highest number of votes in the Council (29) and the third largest European Parliament delegation (73 MEPs). Voting weights within the Council will change in 2014 to reflect directly Member States' population size, which will reduce the current over-weighting for smaller Member States. As a result, the UK and other large Member States will have comparatively greater weight than they do now. The UK also uses its extensive and effective diplomatic presence in Brussels and Member States' capitals to build alliances and secure agreements that promote the interests of the UK and all its people.

3.4 The UK enjoys favourable terms of membership, reflecting its unique position and interests, which it has negotiated over a long period of time. It has secured opt-outs from the European single currency, the euro, which allows it to keep the pound sterling as its currency, and from the Schengen travel area, which allows it to maintain control of its own borders and immigration policy (although it does participate in the police cooperation aspects of the Schengen system). Only one other Member State, Denmark, has a permanent opt-out from the euro, and only Ireland also has an opt-out from the borders and immigration aspects of Schengen. The UK has also negotiated a rebate from the EU budget, worth £3.11 billion to UK taxpayers in 2012, and highly favourable fish quotas – both of which directly benefit Scotland and are a direct consequence of the UK's negotiating weight.

Case study: Fisheries

Fisheries management is subject to exclusive EU competence under the Common Fisheries Policy (CFP). This means that fisheries management decisions, negotiations on quotas and structural funding decisions are taken at EU level, with implementation detail devolved to a limited degree to Member States. Within the UK, the Scottish Government is responsible for managing Scottish fisheries, including quota management and enforcement of rules.

Scottish interests are represented in CFP negotiations as part of the UK, and Scotland has an important role in shaping UK policy priorities. Scotland has around 60 per cent of UK fishing opportunities (by tonnage and by value) and around 40 per cent of UK fishermen. Approximately 40 per cent of UK spending under the current European Fisheries Fund (EFF) has been in Scotland (€55 million out of €138 million).

Scotland benefits from UK influence in Europe, both in annual negotiations on management priorities and in discussions on the reform of the CFP framework itself, as shown by recent successes in the Fisheries Council. Reforms that will benefit Scottish fisheries (such as a more 'regionalised' CFP and the elimination of discarding of dead fish) are high priorities for UK government in reforming the CFP, and are areas that UK negotiators secured crucial agreements on in reform negotiations in 2013.

Scottish fishermen currently enjoy access to EU waters across UK and other Member States' (and some third countries') territorial limits, subject to quota restrictions, under the CFP framework. An independent Scottish state that was not part of the EU would manage its own fisheries within its national waters, subject to any bilateral agreements it concludes with the EU and any other fishing nations. This would mean more direct control over Scottish fishing grounds and management measures, but any wider access beyond Scottish waters, and/or reciprocal agreements, would be subject to bilateral international negotiation with other countries and the EU. Access to funding under the EFF successor – the European Maritime and Fisheries Fund – would also cease.

Membership of the EU would require an independent Scottish state to be part of the CFP and negotiate within that framework. Most immediately this would include determining its share of EU fishing opportunities, known as the 'Relative Stability' share of total allowable catches, which would involve dividing up the current UK share of over 100 different stocks. Although the CFP is based around free access to waters, there is no access for foreign vessels to Member States' 0–6 mile limits, and access to the 6–12 mile limits is restricted based on historic rights. The rest of the UK's access in the Scottish 0–12 mile zone and Scottish access in the rest of the UK's 0–12 mile zone would need to be reconsidered, as would other agreements such as the application to Scotland of 'Hague preferences' that allow the UK and Ireland to benefit from higher quota shares than would otherwise be the case.

More generally, an independent Scottish state would need to take part in the full range of EU negotiations under the CFP, including the annual total allowable catches and quota agreement, discussions on limits of 'days at sea' and agreeing long-term management plans for stocks (e.g. cod). It would also need to seek to influence the position the European Commission took in discussions with third countries such as Norway and Iceland, where agreements may impact on Scottish interests. This would be without the wider influence and voting strength that the UK as a whole can deploy. While an independent Scottish state and the continuing UK may chose to cooperate on issues of mutual interest, this cooperation could not be guaranteed.

Case study: Fisheries (continued)

As fisheries management is subject to exclusive EU competence, an independent Scottish state in the EU would be one of many Member States seeking to negotiate fisheries management arrangements (including stable shares of total allowable catches) that address its own priorities under an existing CFP framework.

The influence an independent Scottish state could exert within fisheries talks would depend on the alliances it could build with like-minded Member States and, for example, the number of votes it could deploy as a relatively small Member State under a qualified majority system in the Fisheries Council. The extent to which an independent Scottish state could drive reforms in EU policy would also depend on what priorities it might wish to pursue.

3.5 In certain areas of EU policy, the UK has set the agenda in the 40 years of its membership. The UK is a strong voice for open, competitive economic policies, and was one of the prime shapers of the European Single Market, which has been of such immense benefit to businesses in the UK and across Europe. As the countries of the euro area look for ways of integrating their economic governance more closely, the UK is the leading voice in the EU arguing for a renewed focus on increasing competitiveness and growth within the EU. A strong UK, speaking with one voice, is the best way of ensuring that the EU does not retreat into protectionism or the erosion of the European Single Market.

3.6 Scotland benefits from the UK's strong voice in Europe and is able to contribute to and participate in discussions and negotiations from its position within the UK. While foreign and European affairs are reserved to the UK Government under the current devolution arrangements, it routinely consults the administrations in Wales, Northern Ireland and Scotland when developing the UK's position in EU negotiations where they have an interest. There is also a Scottish Government EU Office based in Brussels, which forms part of the UK's representation to the EU. The UK Government and the three devolved administrations participate in a Joint Ministerial Committee on the European Union consisting of UK Government, Scottish, Welsh and Northern Ireland Ministers. This Ministerial committee operates as one of the principal mechanisms for consultation on UK positions on EU issues which affect devolved matters. This close working can extend to Ministers from the Scottish Government joining the UK delegation attending EU Council meetings and, when appropriate, speaking on behalf of the UK.

3.7 The UK has some of the most inclusive policy making arrangements for its regions in the whole of the EU. Of all the other Member States, only Belgium allows a devolved region (in its case Flanders) to represent it at Councils; and then only in respect of Fisheries Councils, given that Flanders is the only part of Belgium with a coastline.

3.8 The UK uses its influence on behalf of Scotland on a whole host of issues of particular interest to people and businesses in Scotland, from budget contributions to fisheries quotas, health and safety regulations to agricultural subsidies and Structural Funds.

Case study: The EU Third Energy Package

The UK Government secured a special provision for Scottish energy companies to enable them to comply with European legislation without needing to sell off parts of their business. A key aspect of the EU's Third Energy Package was that utilities companies in Member States must fully separate their transmission activities from the production and supply aspects of their businesses, to help promote competition and exchange between countries.

Two Scottish electricity companies, Scottish Power and Scottish and Southern Electricity, would have fallen foul of this requirement. In order to comply, the two companies would have had to sell off their transmission businesses, which was not in their commercial interest.

The UK Government successfully argued for a special provision covering the Scottish situation, so that instead of having to split the different aspects of their businesses, they would have to demonstrate that the safeguards in the domestic regulatory framework provided the same level of consumer protection as separating the businesses. This outcome protected the Scottish energy companies from selling off their businesses, with minimal changes to their internal governance. The electricity and gas market regulator, the Office of Gas and Electricity Markets (Ofgem), in line with the European Commission's opinion, has now certified both companies as compliant with EU legislation.

Case study: Farmed salmon

The UK fought hard for the right of the Scottish salmon industry to secure protection against what it saw as unfair (dumped and subsidised) trade from imported Norwegian salmon. The UK successfully secured anti-dumping and safeguard measures despite fierce opposition within Europe. Although the weight of economic interests against measures finally prevailed a few years later, the UK secured protection for the Scottish salmon industry in the form of safeguard quotas during 2005, and anti-dumping tariffs and then minimum import prices between 2005 and July 2008. This protection provided the Scottish salmon industry with an important 'breathing space' to help it rationalise and improve the productivity of its operations.

Case study: Cashmere

In 1999, following a successful World Trade Organization challenge against EU quotas on the import of bananas, the US announced its intention to impose retaliatory tariffs of 100 per cent on a range of high profile EU exports to the US. Among these products were cashmere sweaters, an industry which, at the time, exported around $30 million to the US and employed around 2,000 people in Scotland. Persuading the US to remove cashmere from the retaliation list was one of the top trade policy objectives of the then Department of Trade and Industry, and lobbying took place at the highest level. This objective was achieved when in September 2000 the US agreed to remove the product from the list.

An independent Scottish state and the EU

3.9 The Scottish Government has stated that an independent Scottish state would be a member of the EU and that membership would be on the same terms as the UK currently enjoys.[1] However, these assertions are not accepted by many experts and informed commentators.[2] This section looks at the question of how an independent Scottish state might become a member of the EU, and what the terms of its membership might be.

Could Scotland automatically continue in membership?

3.10 The EU is a treaty-based organisation. From the Treaty of Rome, signed by the original six Member States in 1957, to the Lisbon Treaty of 2007, the powers and membership of the EU flow from its Treaties, signed and ratified by each Member State. The UK is a contracting party to the Treaties of the EU; Scotland is not.

3.11 As set out in legal opinion sought and published by the UK Government in *Scotland analysis: Devolution and the implications of Scottish independence*, since it is clear that under international law the rest of the UK would be the same state as the UK with the same international rights and obligations, its EU membership would continue, and on its existing terms. An independent Scottish state could not automatically become a new member of the EU upon independence because there is no explicit provision for this process in the EU's own membership rules. Nor would an independent Scottish state automatically 'inherit' the UK's opt-outs.[3]

3.12 The President of the European Council – the body which decides whether and how to amend the Treaties or admit a new Member State – has said: *"The separation of one part of a Member State or the creation of a new State would not be neutral as regards the EU Treaties. The European Union has been established by the relevant treaties among the Member States. The treaties apply to the Member States. If a part of the territory of a Member State ceases to be a part of that state because that territory becomes a new independent state, the treaties will no longer apply to that territory. In other words, a new independent state would, by the fact of its independence, become a third country with respect to the Union and the treaties would, from the day of its independence, not apply any more on its territory. Under Article 49 of the Treaty on European Union, any European State which respects the principles set out in Article 2 of the Treaty on European Union may apply to become a member of the Union according to the known accession procedures. In any case, this would be subject to ratification by all Member States and the Applicant State."*[4] This echoes the position of the President of the European Commission, who has said: *"The EU is founded on the Treaties which apply only to the Member States who have agreed and ratified them. If part of the territory of a Member State would cease to be part of that state because it were to become a new independent state, the Treaties would no longer apply to that territory. In other words, a new independent state would,*

1 Deputy First Minister, Nicola Sturgeon MSP, in oral evidence to the Foreign Affairs Committee inquiry *Foreign Policy Considerations for the UK and Scotland in the Event of Scotland Becoming an Independent Country,* HC 643 2012–13, May 2013, Ev 54

2 Dr Fabian Zuleeg, Chief Economist, European Policy Centre; Catarina Tully, Director, FromOverHere; Professor Malcolm Chalmers, Research Director, Royal United Services Institute; Dr Jo Eric Mukens, Senior Lecturer, Law School, London School of Economics in evidence to the Foreign Affairs Committee inquiry *Foreign Policy Considerations for the UK and Scotland in the Event of Scotland Becoming an Independent Country.*

3 *Scotland analysis: Devolution and the implications of Scottish independence*, UK Government, 2013, page 34

4 Remarks in a press conference, Madrid, 12 December 2013, www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/140072.pdf

by the fact of its independence, become a third country with respect to the EU and the Treaties would no longer apply on its territory."[5]

3.13 This would be a unique situation: there is no precedent for one part of a Member State becoming independent and then seeking to become a Member State of the EU in its own right.

EU accession: the process

3.14 Despite the lack of precedent and uncertainty around the process which would unfold in the event of Scotland becoming an independent state, there is value in examining the accession process as there are aspects of it which must apply regardless of the background context. The legal basis for becoming a member of the EU is Article 49 of the Treaty on European Union. Under Article 49, states need to apply for membership, obtain unanimous support of the European Council for this request and have membership approved through an Accession Treaty, ratified in accordance with the constitutional requirement of each Member State.

3.15 The Scottish Government has stated that its preferred legal basis for joining the EU is the 'ordinary revision procedure' (ORP) set out in Article 48 of the Treaty on European Union, not Article 49. The ORP is the mechanism by which the Treaties can be amended and has never been used to expand the membership of the EU. The European Parliament may also insist on holding a Convention, which enjoys broad membership, to examine the proposals and adopt a recommendation by consensus in advance of the Intergovernmental Conference negotiations. It is unlikely that Member States, which have to agree to any use of Article 48 by consensus, or the Commission or the European Parliament, which also have to be consulted, would agree to Article 48 being used in this unprecedented way, given that Article 49 explicitly provides for the process that must be followed for a state to become a member of the EU.

3.16 Even if the Member States agreed to use Article 48, the subsequent negotiations would be likely to be very complex. Unlike Article 49, Article 48 allows any aspect of the Treaties to be revised, which could open the way to other Member States, the Commission or European Parliament to use the consequent negotiation to call for revisions to the Treaties in other areas, thus linking an independent Scottish state's membership negotiations to a wider, complex set of negotiations on other aspects of reforming the EU. The resulting Treaties, if they altered the competences or functioning of the EU in significant ways as well as providing for an independent Scottish state's membership, could be subject to referenda in several Member States before they could be ratified.

3.17 The Scottish Government has stated it would wish to secure opt-outs from joining the euro or the Schengen area;[6] something no other new Member State has asked for. In any case, it is clear that an accession negotiation would be required, to discuss the terms and timing of membership, and this negotiation would be subject to the unanimous agreement of the existing Member States. Paragraphs 3.18–3.31 examine the accession process that new Member States have recently gone through.

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5 Letter to the Lords Economic Affairs Committee, 10 December 2012, www.parliament.uk/documents/lords-committees/economic-affairs/ScottishIndependence/EA68_Scotland_and_the_EU_Barroso's_reply_to_Lord_Tugendhat_101212.pdf

6 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

Opt-outs and derogations

As the EU has developed since the UK's accession in 1973, it has taken on new areas of responsibility. The UK decided that some of these were not in its interests, and negotiated opt-outs or derogations from them. For example, in the Maastricht Treaty of 1992, the UK secured permanent opt-outs of membership of the single currency and the 'social chapter', although a later UK government dropped the latter in 1997. Along with Ireland, the UK also has a permanent opt-out from the Schengen passport-free travel area (although it does participate in the police cooperation aspects of the Schengen system). It has the right to opt in to legislation proposed on the EU's area of freedom, security and justice (often referred to as Justice and Home Affairs or JHA), and the right to opt out of measures building on the police cooperation aspects of the Schengen system.

Similarly, Denmark has also secured opt-outs, exempting it from participation in the euro, the Common Security and Defence Policy, and cooperation in the area of freedom, security, justice and EU citizenship (although the position negotiated for Denmark, that EU citizenship is dependent on and additional to, and does not replace, national citizenship, now applies to all Member States).

3.18 Accession negotiations cover important and complex issues and the EU Member States must reach unanimous agreement at numerous decision points to allow a candidate to progress through them. Once an applicant state has submitted its application to join the EU, the Council of the EU (and the European Council) considers it, and refers it to the Commission for an opinion.[7] The European Parliament and national parliaments are notified. Following a Commission opinion that recommends opening negotiations, the Council of the EU (and, in practice, the European Council) agrees by unanimity to open accession negotiations, and also agrees by unanimity a framework that will govern those negotiations.

3.19 A 'screening' process takes place to assess the candidate country's compliance with the EU *acquis* – the body of EU law and practice that accession states are expected to adopt, and which is divided into 35 negotiating 'chapters' covering different policy areas, such as fisheries or taxation. Although the negotiations are carried out by the Commission, the Member States are very closely involved throughout the process and take the final decisions: they unanimously agree the 'Common Position' for each chapter that assesses the candidate's preparedness, define what further progress is necessary, and set opening and closing chapter benchmarks that the candidate will need to meet. They formally agree by unanimity whether to open chapters in an Accession Conference, and agree by unanimity when to provisionally close them, doing so only once the candidate country has met the requirements.

3.20 In the case of an independent Scottish state, it could be expected that the technical aspect of these negotiations would be relatively straightforward: by virtue of having been part of the UK, it would already meet the membership conditions and comply with the vast majority of the EU *acquis* – except those areas where the UK itself has opt-outs, opt-ins or other derogations from the *acquis.*

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[7] An 'applicant' is a country which has applied to join the EU. A 'candidate' is a country in accession negotiations with the EU. An 'accession state' is a country that has completed negotiations but has not yet formally joined the EU.

3.21 However, should any substantive or political difficulties arise, this could affect a candidate's progress in the negotiations. For example, as the negotiating frameworks make clear, accession to the EU implies the acceptance of the EU's *acquis*, and that a candidate country will have to commit to apply the *acquis* as it stands at the time of its accession.[8]

3.22 It is possible, however, for a candidate country to negotiate special arrangements. The onus is on the candidate county to make the case and persuade the EU and its Member States to grant it flexibility. For example, the EU may grant candidates transitional periods on a range of issues so that they have more time to align and comply with the EU *acquis* post-accession. However, the EU makes explicit that these provisions will only be granted exceptionally.

3.23 In very exceptional cases, the candidate may be granted permanent derogations from particular areas of the *acquis*. However, permanent derogations are rarely granted and, even then, have tended to be fairly limited in scope (e.g. on the acquisition of secondary residences).

3.24 In line with precedent, the Commission has already stated that all new Member States will be expected to adopt the euro and Schengen portions of the *acquis*. Moreover, as no candidate country that has joined the EU since these areas became part of the EU *acquis* have sought to opt out from these Treaty commitments, the Scottish Government's stated intention to do so would place an independent Scottish state in uncharted territory.[9] Requests from the candidate for unprecedented concessions and exceptions to the *acquis*, particularly if they concern important and sensitive policy areas, have the potential to lengthen the process considerably and are not guaranteed a successful outcome.

3.25 Once the EU Member States have agreed to close all the negotiating chapters, the Commission recommends concluding accession negotiations. The Council of the EU and the European Council must reach unanimous agreement on the decision to close negotiations, a target date for accession and the content of the Accession Treaty. The draft Accession Treaty is submitted to the European Parliament for its consent, acting by a majority of its entire membership (i.e. 376 votes out of 751, following the 2014 European Parliamentary elections).

3.26 All parties – the existing Member States and the accession state – must sign the Accession Treaty. The Treaty must then be ratified, again by all parties. This often involves a referendum in the accession state. Once each Member State and the accession state have completed their ratification processes successfully, the Council of the EU issues a Decision, agreed by unanimity, agreeing the admission of the new Member State. The Accession Treaty takes effect, and the candidate accedes as a Member State.

[8] The negotiating framework establishes the guidelines and principles for the accession negotiations with each candidate country. The European Commission draws up a draft negotiating framework, the EU Member States adopt it and the Council Presidency presents it at the start of the accession negotiations.

[9] *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

How long do accession negotiations take?

There is no set timetable for accession negotiations. The speed of the process depends on how closely aligned the applicant state is to the EU *acquis* and to broader EU conditionality, on how capable its administrative and judicial systems are of applying what the EU requires of them, and on the nature of the candidate's demands for special arrangements.

The countries that entered accession negotiations to join the EU in the fourth wave of enlargement already applied large swathes of the EU *acquis* as it then stood by virtue of their membership of the European Economic Area. This, and the fact that they required limited transitional or specific arrangements, allowed them to make extremely rapid progress in their negotiations. For example, **Norway** moved from opening accession negotiations to the signing of the Accession Treaty in just over a year (April 1993 to June 1994), although people in Norway voted against this in a referendum on EU membership. **Austria, Finland** and **Sweden** moved from the opening of accession negotiations to becoming EU members in just over two years (December 1992 to January 1995).

But those states were in a rather unusual position. Recent rounds of accession negotiations have taken much longer. **Poland, Hungary, the Czech Republic, Estonia, Slovenia** and **Cyprus** began their accession negotiations in March 1998 and joined the EU in May 2004. **Croatia**, which joined the EU on 1 July 2013, began its accession negotiations with the EU in October 2005.

None of these negotiations involved the candidate country asking for significant opt-outs or a rebate on their contributions to the EU budget.

3.27 Recent EU negotiating frameworks now recognise the fact that, although the shared objective of negotiations is accession to the EU, the negotiations are an open-ended process whose outcome cannot be guaranteed beforehand. On a small number of occasions, despite having completed the negotiation process, a candidate country has not acceded to the EU as a result of its ultimate decision (and not necessarily in line with its government's recommendation) that their greater national interest is better served by not joining the EU.

3.28 The people of Norway have twice reached this conclusion. The first time was after having completed accession negotiations to the European Communities at the same time as the UK, Ireland and Denmark. Although the EEC had agreed special arrangements in order to address specific problems faced by Norway (notably on agriculture and fisheries), and the Norwegian Government had decided to accept these arrangements in signing its Acts of Accession on 22 January 1972, a majority of the Norwegian population chose to reject the EU's offer in a referendum. Consequently, the Norwegian Government decided that Norway would not complete its accession process. The Norwegian people subsequently reached the same negative conclusion in 1994 about the deal that Norway had secured in its second set of accession negotiations with the EU.

Other Member States' views

3.29 As all 28 Member States would have a veto on both the process for an independent Scottish state's accession, and on the terms of its membership, the views and reservations of other Member States must be taken seriously. The House of Commons Foreign Affairs Committee noted in their report into the foreign policy considerations for the UK and Scotland in the event of independence that the Scottish Government "underestimates the unease which exists within the EU Member States and EU institutions about Scottish independence".[10] The European Policy Centre set out in its evidence to the Committee that should an independent Scottish state seek to secure favourable terms of EU membership, which may prove an attractive model for other potential breakaway regions within Europe or aspirant members, other Member States may view this as a more palatable political reason to reject an independent Scottish state's membership while at the same time quashing a precedent for independence which may resonate within their own countries.[11] Given the precedent that an independent Scottish state's membership of the EU would set, Member States coping with domestic independence movements in their own countries might object to an independent Scottish state's application for EU membership, regardless of the terms of membership sought. Even Member States without these domestic considerations may have concerns about further fragmentation of the EU. In the event of a vote for independence this would be the wider political backdrop for an independent Scottish state's application to join the EU. It is far from straightforward and therefore the Scottish Government may well find that it is unable to secure terms of membership in line with its domestic political assertions, as others have recognised.[12]

3.30 As an example, the Spanish Prime Minister Mariano Rajoy has commented publicly that *"It is very clear to me, as it is to everybody, that a region that obtains independence which is part of a nation state of the EU will stay outside the EU. It's good that the citizens know this, the Scottish know this, as well as citizens of the EU… The treaties of the European Union apply only and exclusively to member states that have agreed to them and ratified them. If a region or territory of a member state breaks away and becomes a new independent country they will become a third country, with respect to the EU, and its treaties won't apply to them… This is the law – and the law as it is in all the European states – and it is natural that it is applied."*[13] This suggests that the process for an independent Scottish state to become an EU Member State and the terms of that membership are unlikely to be as smooth as stated by the Scottish Government. As others have also suggested, the Scottish Government may well find that it is unable to secure the terms of membership it has asserted it would achieve.

3.31 In its paper *Scotland in the European Union*, the Scottish Government appears to suggest that the agreement reached between the UK Government and Scottish Government binds the UK to specific actions in relation to an independent Scotland's application for EU membership. Under the 'Edinburgh Agreement' both governments committed to "continuing to work together in good faith in the light of the outcome of the referendum, whatever it is"; nothing further. It does not mean that representatives of the continuing

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10 *Foreign Affairs Committee, Sixth Report*, UK Parliament, www.publications.parliament.uk/pa/cm201213/cmselect/cmfaff/643/64302.htm

11 *Foreign Affairs Committee, Written Evidence*, UK Parliament, www.publications.parliament.uk/pa/cm201213/cmselect/cmfaff/643/643we01.htm

12 Dr Fabian Zuleeg, Chief Economist, European Policy Centre; Catarina Tully, Director, FromOverHere; Professor Malcolm Chalmers, Research Director, Royal United Services Institute; Dr Jo Eric Mukens, Senior Lecturer, Law School, London School of Economics in evidence to the Foreign Affairs Committee inquiry *Foreign Policy Considerations for the UK and Scotland in the Event of Scotland Becoming an Independent Country*

13 http://news.stv.tv/politics/250628-mariano-rajoy-says-independent-scotland-would-stay-outside-the-eu/

UK would or could facilitate everything that the Scottish Government has said it hopes to achieve through independence, for example on the terms of its EU membership.[14]

What would the terms of an independent Scottish state's EU membership be?

3.32 As set out above, an independent Scottish state's negotiations with the continuing UK and other existing Member States to join the EU would be detailed, complex and resource intensive. They would address the terms of an independent Scottish state's membership, including complex areas such as fisheries quotas and its financial contributions. They would have far-reaching implications for an independent Scottish state and the continuing UK as they would also need to address an independent Scottish state's position in relation to the European single currency and the Schengen free movement area. Under the terms of the EU Treaties – and as stipulated explicitly in accession treaties – all new Member States are formally obliged to make the political and legal commitment to join the economic and monetary union, adopting the euro as their currency once they meet the necessary monetary and budgetary convergence criteria. The mechanism for an independent Scottish state to become a member of the EU would also depend on the outcome of negotiations and on the attitude of other EU institutions and Member States. Negotiations on the terms of EU membership for an independent Scottish state are therefore likely to be lengthy and complex. It could not be guaranteed that an independent Scottish state's negotiations would be completed within the current Scottish Government's preferred 18-month timeframe for joining the EU.

3.33 Paragraphs 3.34–3.61 examine certain parts of the *acquis* – the body of EU law and practice that accession states are expected to adopt.

The euro

3.34 As part of the negotiations of its EU membership, an independent Scottish state would need to resolve the question of euro membership. The EU Treaties oblige EU Member States to adopt the euro upon meeting certain monetary and budgetary convergence criteria; only the UK and Denmark have negotiated exemptions. Under EU enlargement criteria, membership of the single currency is obligatory for all accession states, and all countries that have joined the EU since 1993 have been formally required to commit to adopt the euro in due course.[15]

3.35 The implications of different currency options, including euro membership, for an independent Scottish state have been set out in more detail in *Scotland analysis: Currency and monetary policy*, which was published in April 2013. It concludes that continuing membership of the UK is in the best economic interests of Scotland and the rest of the UK. None of the options under independence would serve an independent Scottish state as well as the current arrangements within the UK.

3.36 The current Scottish Government's stated policy of a formal sterling currency union with the rest of the UK is at odds with the formal EU requirement for a commitment to join the

[14] *Scotland in the European Union*, Scottish Government, November 2013, page 83: "Accordingly in approaching the question of Scotland's independent membership of the EU, the Scottish Government is confident that the UK Government will fully support this process, and will do its utmost to ensure the procedure is completed smoothly and timeously."

[15] Under its Accession Treaty, Sweden is obliged to join the euro area once it meets the necessary conditions. Although the Swedish people rejected euro membership in a 2003 referendum, and Sweden has yet to fulfil the final criterion (membership of the European Exchange Rate Mechanism (ERM II)), the Swedish Government acknowledges that the political and legal obligation persists, although it has set no timetable for meeting it.

euro, as well as acceptance of the Maastricht conditions on deficit and debt, as part of the *acquis*. Since an independent Scottish state would be a new state and would have to go through some form of accession process to become a member of the EU, it would in principle be required to make a formal commitment to adopt the euro at some time in the future, unless it were able to negotiate a formal opt-out. Such a decision would not be in the hands of the continuing UK or an independent Scottish state but would require the agreement of all 28 EU Member States.

3.37 Adopting the euro would require serious consideration by an independent Scottish state. There would be a significant one-off cost to the economy from the change-over of notes and coins and from changes to business accounting and payment systems. If an independent Scottish state were to adopt the euro, monetary policy set by the European Central Bank would be likely to be less well suited to the Scottish economy than that currently set by the Bank of England.

3.38 At a macroeconomic level, euro area monetary policy would be set for the euro area as a whole, and an independent Scottish state's size means that its economic conditions would have limited influence on euro area monetary policy. Less well adapted monetary policy could put more pressure on an independent Scottish state's fiscal policy to compensate for the poorer suitability of monetary policy.

3.39 Adopting the euro would result in an independent Scottish state being subject to sanctions and stronger fiscal and economic rules than non-euro area countries under the EU's Stability and Growth Pact and the European Semester. For example, it would be required under Article 126.1 of the Treaty on the Functioning of the European Union (TFEU) to "avoid excessive deficit", defined as a deficit of 3 per cent of Gross Domestic Product (GDP) and a debt of 60 per cent of GDP. The UK, as a result of its opt-out from the euro under Protocol 15 of the TFEU, is only required to "endeavour to avoid excessive deficit". The UK cannot face any form of sanctions under the Stability and Growth Pact as a result of Protocol 15, which exempts the UK from coercive measures.

3.40 In the event that an independent Scottish state failed to avoid excessive deficit and was placed in the EU's excessive deficit procedure, the European Council would agree recommendations on correcting the deficit. These would set out the measures that an independent Scottish state should take to get its deficit below the 3 per cent target. In the event that these recommendations were not implemented, the Council of the EU could decide, on the basis of a Commission recommendation, that an independent Scottish state had failed to take effective action to correct the deficit and it could subsequently face annual fines from the EU up to 0.5 per cent of its GDP.

3.41 In the event that an independent Scottish state did not have an excessive deficit, it would still be required to make progress towards a Medium-Term Budgetary Objective, which is a deficit well below 3 per cent. Again, in the event of inadequate action to meet this objective, an independent Scottish state could face sanctions under EU rules. Under the recently agreed reform to euro area governance (the Budgetary Monitoring Regulation, commonly known as 'the two pack'), an independent Scottish state would have to submit a draft budgetary plan to the Commission every October for the opinion of the Commission and for discussion by other euro area Member States.

3.42 As well as stronger fiscal rules, an independent Scottish state would also face stronger economic surveillance measures if it were to join the euro. Under the EU's new macroeconomic imbalances procedure, an independent Scottish state could face sanctions if an excessive macroeconomic imbalance in its economy was identified by the Council and it failed to correct it in sufficient time. In addition, it could face sanctions in the form of what is known as macro-conditionality, where budget payments would be suspended in the event that it did not comply with economic and fiscal recommendations. The latter would apply even if an independent Scottish state was not a member of the euro. The UK has secured an opt-out from this.

3.43 In addition, it is worth considering the trajectory of euro area governance which is currently toward much closer forms of financial, fiscal and economic integration. The President of the European Council is currently leading a process to create a 'genuine economic and monetary union'. On the financial side, agreement has been reached on a Single Supervisory Mechanism giving the European Central Bank supervisory responsibility for euro area banks. No decisions have been taken on the shape of further fiscal and economic integration but a number of possible proposals have been put forward, including contractual arrangements between the EU and euro area Member States on reforms they would be required to undertake. Many of those countries that have not yet joined the euro have decided to sign up to closer integration measures which will eventually apply to them when they join.

3.44 Of course, an independent Scottish state may not be ready to join the euro immediately on joining the EU. Those countries that are committed to join but have not yet met the criteria for doing so have what is called a 'derogation'. Those countries cannot face sanctions before they join the euro (apart from in the form of macro-conditionality as outlined above) but must take steps to meet the convergence criteria to ensure their economies are ready to join the euro. Progress is assessed annually. The UK is not required to prepare to join the euro given its opt-out.

The European Stability Mechanism

The European Stability Mechanism (ESM) was inaugurated on 8 October 2012 and is a permanent mechanism providing financial assistance to euro area Member States experiencing or threatened by financing difficulties. The ESM has provided financial assistance to Spain (up to €100 billion, with the objective to recapitalise Spanish banks) and Cyprus (€9 billion). Euro area financial assistance to Ireland, Portugal and Greece was provided by its predecessor, the temporary European Financial Stability Facility. The members of the ESM are the euro area Member States, and EU members that adopt the euro are expected to join the ESM. The UK is not a member of the ESM, and has no liability for ESM assistance.

Schengen

3.45 Membership of the Schengen area has been part of the EU legal framework since 1999 and all new members of the EU since 1999 have been required to commit to joining the Schengen area. The Schengen area is founded upon the Schengen Agreement of 1985, which along with its related *acquis* was integrated into the EU Treaties in 1999. The principal purpose of the Schengen area is to facilitate the free movement of persons through the removal of internal border controls between participating countries, which the EU regards as a fundamental goal for new Member States. This means that movement across internal Schengen borders is generally free from checks. Common rules and procedures are applied across Schengen countries with regard to visas for short stays, asylum requests and external border controls.

3.46 At present 22 EU Member States are full members of the Schengen area, along with four non-EU European countries. Four other EU Member States are working to join the Schengen area.[16] If an independent Scottish state were to join the Schengen area, it would need to complete a separate Schengen membership process. This includes implementation of all EU Schengen *acquis* measures into national law and extensive work to build command centres and IT systems supported by flexible border force and policing resourcing and provision of high level technical equipment. An evaluation process would assess whether they had met the criteria before a decision to allow them to join fully was taken.

3.47 Only the UK and Ireland have a permanent opt-out from joining the border aspects of Schengen and are therefore able to maintain their own border control systems permanently. Both the UK and Ireland participate in the police cooperation aspects of the Schengen system.

3.48 The UK and Ireland, with Guernsey, Jersey and the Isle of Man, are instead members of the Common Travel Area (CTA). The CTA allows people to travel between the participating jurisdictions without internal borders for immigration purposes.

3.49 Membership of the border and immigration parts of Schengen is incompatible with membership of the CTA, but full membership of Schengen is now a condition of EU membership for new Member States. The Scottish Government has stated that an independent Scottish state would seek to join the CTA, not the border and immigration parts of Schengen – a significant opt-out demand that will have implications for its negotiations with all Member States on EU membership.[17] This opt-out would need to form part of an independent Scottish state's Act of Accession to the EU, as that carries conditions for the application of the Schengen accession process referred to in paragraph 3.24.

3.50 Future papers in the Scotland analysis series will consider these issues and their implications for an independent Scottish state in more detail.

Justice and Home Affairs

3.51 The JHA aspects of the EU *acquis* cover particularly sensitive areas including immigration, policing and criminal law. The UK has therefore negotiated special conditions for its participation, allowing it to choose whether to take part in each proposed piece of legislation. The UK has used this power to protect the nation from measures that it does not wish to take part in, such as those that would require changes to UK immigration law, while participating where it is in UK interests to do so; for example, the UK participates in measures against human trafficking.

3.52 This JHA opt-in applies to Scotland as part of the UK. The UK Government currently exercises its power to opt in to JHA measures taking account of the interests of the whole of the UK, including Scotland. The Scottish Government is consulted on all decisions on whether to take part in JHA measures. It is questionable whether an independent Scottish state would be able to negotiate such favourable provisions on its own behalf as part of its EU accession process: this would be unprecedented, as no other new Member State has done so.

3.53 The Scottish Government has stated that it would want to negotiate a similar opt-in to that currently enjoyed by the UK.[18] If an independent Scottish state was unable to negotiate similar provisions, it would be likely to have to adopt the JHA *acquis* in its entirety. It would

16 Bulgaria, Croatia, Cyprus and Romania.

17 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

18 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

also automatically be bound by new measures in the JHA field, with implications for an independent Scottish state's legal system.

3.54 Under the terms of the Lisbon Treaty, the UK Government is required to decide by 2014 whether to opt out of, or remain bound by, all EU police and criminal justice measures adopted prior to the entry into force of the Lisbon Treaty. These measures will become subject to the full jurisdiction of the Court of Justice of the European Union and the enforcement powers of the European Commission on 1 December 2014, and this will apply to the UK unless it opts out of them all.

3.55 In total, there are more than 130 measures within the scope of this decision. These measures include the European Arrest Warrant, UK participation in the police and judicial cooperation elements of the Schengen Convention, Europol, Eurojust, the Second Generation Schengen Information System (SIS II), ECRIS (electronic exchange of criminal records) and the Prisoner Transfer Framework Decision, a measure enabling EU prisoners to be transferred back to their home country.

3.56 On 9 July 2013 the Home Secretary announced to the UK Parliament that the UK Government intended to exercise the opt-out. Following votes in both Houses of Parliament, the Prime Minister wrote to the President of the Council of Ministers on 24 July to provide formal notification that the UK Government has decided to opt out of all pre-Lisbon police and criminal justice measures. The opt-out is effective from 1 December 2014.

3.57 On 9 July the Home Secretary also announced a set of 35 measures that the UK will seek to rejoin. This set of measures includes all those necessary to combat cross-border crime and keep the UK safe. The UK Government has begun discussions with the European Commission and other Member States to seek to rejoin these measures. The UK Government's decisions on this matter will apply to Scotland.

3.58 However, in the event of a vote for independence, if Scotland were to become independent in 2016 as proposed, it could be required to readopt the entire JHA *acquis*, including the measures that the UK Government had opted out of two years previously. This would require major changes to its legal system unless the government of an independent Scottish state was able to negotiate any exemptions or secure an opt-out.

Other legal implications of independence – charging foreign students

3.59 As part of the UK, the Scottish Government's policy has been to provide Scottish students who are resident in and study in Scotland with free higher education for their first degree. As a result of Scotland's obligations under Article 18 of the TFEU, funding provided must not discriminate against EU nationals from other Member States on grounds of nationality. This has the practical effect that students from other Member States also have their fees paid from Scottish public funds. However, for students from the rest of the UK the position is somewhat different. The UK as a whole is an EU Member State; the four constituent nations are not Member States in their own right. So the current Scottish legislation means that the Scottish Government is able to charge students from England, Wales and Northern Ireland tuition fees precisely because this is an intra-UK matter and EU law does not apply.

3.60 The Scottish Government has said that it would seek to continue these arrangements under independence. However, to charge students from the continuing UK tuition fees on independence while not charging Scottish or EU students would be clearly contrary to EU law as it discriminates against them on grounds of nationality. Should the government of an independent Scottish state pursue this policy, it is likely that it would face challenges on grounds that it is contrary to EU law. Contrary to claims made by the Scottish Government, it is likely that the existing policy on tuition fees would have to be overturned either to impose tuition fees for Scottish and EU students or to remove the fee system for students from other parts of the UK. This would have a substantial impact on funding streams for Scottish universities.

3.61 More broadly, this approach fails to acknowledge the reality that, in the event of independence, Scotland and the continuing UK would be two separate states. An independent Scottish state would no longer be able to benefit from circumstances that apply because it is part of the UK.

How influential would an independent Scottish state be?

3.62 In both the Council of the EU and the European Parliament, Member States' population is a critical factor in determining their voting weight and representation, although they are not directly proportional to population size. This has meant that smaller Member States have tended to have higher representation per capita than larger ones. But under new rules to come into force in 2014, when a Member State's voting weight in Council will directly reflect its population size, the UK and other large Member States will have comparatively greater weight than they do now, with the current over-weighting of smaller Member States reduced.

3.63 Smaller EU nations generally tend to look for consensus in EU negotiations and calibrate their positions based on where they see the likely areas of compromise between the larger Member States. This can be because they have limited institutional weight and capacity – or even inclination – to engage on more than a narrow range of priority negotiations at any one time. But most small EU countries are prepared to argue strongly for their position where they feel it is necessary. For some this is most effective when they are part of a larger coalition of Member States with the same interests; an example of this would be Slovakia's work through the Friends of Cohesion group to secure a strong cohesion policy under the Multiannual Financial Framework (MFF).

3.64 An independent Scottish state as a member of the EU would face similar challenges. Currently, as part of the UK, Scotland has more votes, more leverage and more formal weight in Council, with a large and experienced Foreign Ministry in London, than it would as an independent Member State. As a new Member State, an independent Scottish state would need Permanent Representation in Brussels, which, despite the current small Scottish Government office in Brussels (whose staff are accredited as UK diplomats) to build from, is a significant investment in both staff and funding.

Case study: Multilateral negotiations

International negotiations, including those within the EU, can be lengthy and involve coordination across multiple UK departments in London and overseas. The negotiations around the EU's MFF for the seven-year EU budget from 2014 to 2020 are an example of this. The European Commission released their first proposal for the MFF budget in June 2011, which signalled the start of the formal negotiations, although informally the negotiations had started earlier. (The UK's Prime Minister, with other like-minded Heads of Government, wrote to European Commission President Barroso in December 2010 calling for a more restrained budget.) The negotiations concluded in the European Council in June 2013.

The scale and complexity of the MFF negotiations meant that most UK government departments were involved in the negotiations. The MFF is underpinned by over 70 sectoral regulations which are led on by a number of departments. A cross-Whitehall programme board met between six and eight times a year to identify cross-cutting areas and ensure that their sectoral negotiations were consistent with the overall MFF negotiations. The UK Government regularly engaged with the Scottish Government (and that of Wales and the Northern Ireland Executive) both in Brussels and through the Joint Ministerial Committee in London.

A systematic lobbying and engagement plan was overseen by the Cabinet Office, HM Treasury and the FCO. The MFF was raised with EU Member States at every viable opportunity by the Prime Minister, other Ministers and officials. The UK's network of EU diplomatic missions regularly discussed the EU budget with other Member States and reported back to London on their positions. The UK Permanent Representative to the EU also has a team in Brussels working on the sectoral regulations and EU budget.

The negotiations themselves reached their pinnacle at the European Council – the meeting of Heads of State and Government of the EU – in November 2012 and then again in February 2013. The Prime Minister was accompanied by a number of senior government officials, who in turn were supported by two teams of EU budget experts in Brussels and London. The most fundamental parts of the MFF deal were agreed at these meetings. It was then formally agreed by the European Parliament in November 2013.

European Investment Bank

The European Investment Bank (EIB) is the EU's long-term lending institution and lends to projects which further the EU's policy goals. The UK is the joint largest shareholder (along with France, Germany and Italy). Although the EIB lends to projects outside the EU in support of the EU's external policy objectives, around 90 per cent of EIB lending is to EU countries. As part of the UK, Scotland is eligible for this EU lending, and benefits significantly from it. Between 2008 and 2012 finance contracts worth €1.4 billion were signed in Scotland.* The EIB's investments in Scotland have contributed to (but are not limited to) the financing of six onshore wind farms, the completion of the M80 motorway, the construction or refurbishment of over 40 schools, investment in social housing and the construction of new facilities at the University of Strathclyde.**

Article 308 of the TFEU states that "the members of the European Investment Bank shall be the Member States" of the EU. Unless and until an independent Scottish state became a member of the EU it could not be a member of the EIB. By virtue of having to undergo an accession process in order to join the EU as a new Member State, for the period of application, an independent Scottish state might be ineligible for the lending the EIB undertakes inside the EU. An independent Scottish state could become eligible for the lending the EIB undertakes outside the EU; but this is by no means certain and would likely require the approval of the EIB's Board of Governors.

* *The European Investment Bank Statistical Report*, EIB, 2012

** EIB statistical reports, available at www.eib.org/infocentre/publications/all/index.htm

The EU budget

3.65 A key financial issue for an independent Scottish state as part of the EU would be its contributions to and receipts from the EU budget. The UK Government's first Scotland analysis paper, *Devolution and the implications of Scottish independence*, explained that an independent Scottish state would have to apply to join the EU, and the terms of its membership would be a matter of negotiation. It follows, as regards the EU budget, that an independent Scottish state would not inherit the rights of the UK, and its obligations would be the same as for any other new EU Member State.

3.66 The Scottish Government's position, that the UK rebate could be 'shared' on the basis of bilateral negotiations between the UK and an independent Scottish state without re-opening the 2014–20 EU budget, misunderstands the nature of the rebate.[19]

3.67 The UK rebate is not a constant, annual lump sum amount that can be divided or shared. It is a function of the UK's respective shares in the EU economy and receipts. Any change in the size of the UK economy and receipts (for example as a result of Scottish independence) would be automatically reflected in the rebate calculation, with the new amount relating to the UK, excluding Scotland. There would be no 'Scottish share' of the UK rebate left. For it to be otherwise would require a change to the rules relating to budgetary corrections such as the UK rebate. This would need the unanimous agreement of all Member States.

[19] *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

3.68 Given the negotiating realities of the EU, it would be extremely difficult for an independent Scottish state to secure its own budgetary correction on accession (something no other Member State has ever done) and, if it did, this would necessarily be at the expense of securing particular treatment in other areas (membership of the euro, the Schengen borderless travel area, Common Agricultural Policy (CAP) receipts etc). Furthermore, it is inconceivable that an independent Scottish state would secure a correction as substantial as the UK rebate. Instead, as a new Member State to the EU, it would have to contribute to the UK rebate like other Member States.

3.69 The accession date for an independent Scottish state is uncertain. So, to illustrate the impact of independence on Scottish taxpayers' contributions to, and receipts from, the EU budget, the impacts have been modelled over the course of the next MFF period, 2014–20.

3.70 HM Treasury analysis suggests that if Scotland was an independent state, Scottish taxpayers would contribute a total of €12.9 billion to the EU budget over the next MFF (€2.9 billion more than if Scotland remained part of the UK – €1,100 higher per household over 2014–20). With receipts likely to range between €4.8 billion and €7.0 billion (compared with €6.3 billion as part of the UK), an independent Scottish state's net contribution would, therefore, be between €2.2 billion and €4.3 billion higher (between €840 and €1,650 per household) compared with its position over 2014–20 as part of the UK. Annex A of this paper considers EU budget issues in detail.

The structure of the EU budget

3.71 Each Member State contributes to the EU budget, and these resources are distributed across five main expenditure categories and across each Member State. Annual ceilings are agreed under the seven-year MFF which, in 2013, was negotiated for the period 2014–20.

3.72 On the expenditure side, the recent MFF deal means that more than two-thirds of EU funds are allocated to Structural and Cohesion Funds (SCFs) and the CAP.

3.73 The budget is funded primarily through 'own resources', which refers to revenue collected from Member States. There are three types of own resources: the majority of import duties on goods brought into any given Member State from outside the European Customs Union (known as 'traditional own resources' or TOR); a value added tax (VAT) element; and residual funding (68 per cent of total EU revenue in 2011) calculated as a percentage of Gross National Income (GNI).

Gross costs

3.74 Given estimates of an independent Scottish state's historical GNI, TOR and VAT-based contributions (based on published data), together with an estimate of its contribution to the UK rebate, it is possible to derive its historical financing share of the EU budget. This historic estimate can be applied to the payments ceiling for the 2014–20 MFF (€908.4 billion).

3.75 Without a budgetary correction, it is estimated that an independent Scottish state would contribute a total of around €12.9 billion per year to the EU budget over the next MFF. As part of the UK, over the same period, the gross contribution made by Scottish taxpayers would be €10.0 billion, with the driver of the difference being the loss of the benefit from the UK rebate under the assumption of an independent Scottish state. In short, the gross cost to Scottish taxpayers of contributions to the EU budget is around €2.9 billion (€1,100 per household), higher if there is an independent Scottish state than if Scotland continues to be part of the UK over 2014–20.

Receipts from the EU budget – CAP

3.76 CAP receipts are split into two separate funds. Pillar 1 (subsidy) represents the bulk of CAP expenditure and is mainly in the form of direct payments to farmers. Pillar 2, in contrast, is used to fund environmental and rural economic growth programmes. Pillar 1 direct payments were initially allocated across the EU (and within the UK) based on previous levels of agricultural production. The more a Member State or region produced, the more funding it received. For the vast majority of such subsidies, there is no longer a direct link between what farmers produce and what they receive in subsidy, but areas with historically higher agricultural production continue to receive relatively more subsidy.

3.77 When direct payments were introduced, they were based on historical levels of production. In Scotland, payments are spread across a wide area of land, much of it low productivity, meaning that Scotland receives relatively low rates of direct payments on a per hectare basis. Within the UK, Scotland currently receives €130 per hectare (/ha) compared with the EU average of €268/ha.

3.78 Comparing per hectare payments is, however, just one means of analysing how payment levels differ across the UK. Due to the relatively large average farm size in Scotland, Scottish subsidy receipts per farm compare favourably with the UK average. The average annual payment for farmers who are eligible in Scotland is £25,700 compared to £17,400 in England, £16,200 in Wales and £7,300 in Northern Ireland (2011 figures). Scotland's average annual payment per farmer is also among one of the highest average payments across the EU.

3.79 In the short term, if an independent Scottish state did not become a Member State immediately after becoming independent of the UK, then CAP receipts would be interrupted. Any continuation of existing levels of support would require funding from a Scottish national budget (somewhere between €550 million and €600 million per annum – 2011 prices).

3.80 For its part, the Scottish Government has assumed that Scotland's EU membership would continue seamlessly and asserts that Scottish farmers would have received an additional €1 billion in funding (over 2014–20) from Pillar 1 if there were an independent Scottish state in the EU. This assertion is made on the basis that the European Council agreed in February 2013 that in respect of the 2014–20 MFF, all Member States are guaranteed a minimum of €196/ha[20] by 2020. The Scottish Government claim is that if Scotland were already an independent state, and an established Member State in its own right, it would see a real terms uplift in direct payment receipts of approximately 30 per cent from 2013 to 2020, giving Pillar 1 receipts over the next MFF of approximately €4.6 billion (2011 prices).

[20] Current prices.

3.81 What an independent Scottish state would receive in direct payments would depend on the terms of its accession, which would need to be negotiated with 28 Member States, all of which can be expected to approach an accession negotiation according to their national interest. So, it is difficult to see all 28 Member States agreeing to an independent Scotland receiving €196/ha by 2020. There are two main reasons for this:

- the impact on CAP receipts in other Member States; and
- the approach taken in the three most recent accessions.

3.82 As a result of the recent EU budget deal, the CAP budget is falling 13 per cent in real terms in 2014–20, and it can be assumed that other Member States' governments would be extremely reluctant to agree to the accession of an independent Scottish state on terms that would result in a further cut to their own CAP receipts for 2014–20.

3.83 Recent experience helps to give perspective to this issue. In order to fund an uplift for the three Member States (Latvia, Lithuania and Estonia) that will receive €196/ha by the end of 2014–20, most other Member States will see a total reduction of €1.1 billion in Pillar 1 receipts. This is over and above the cuts arising from the falling CAP budget. There could be no realistic expectation that the seven-year budget deal for 2014–20 would be re-opened. This means that for an independent Scottish state to receive an extra €950 million, the 28 other Member States would have to agree to additional cuts in their CAP receipts of around €950 million during 2014–20.

3.84 It is also worth noting that the norm for new entrants during the more recent accessions of 2004 and 2007 (and for Croatia in 2013) is for direct payments to be phased in over a ten-year period. Until the end of that ten-year period, new Member States only receive a growing proportion of their 'full entitlement' each year. It can be anticipated that there would be pressure from recent entrants or other Member States to ensure that subsequent new entrants are treated in a similar fashion.

3.85 So there is the possibility that Scottish CAP receipts could be considerably lower than they currently are for a number of years. For example, for the period 2014–20 as part of the UK, the real value of direct payment receipts to Scotland under the current allocation is €3.6 billion (2011 prices). Under a scenario where full 'entitlement' is phased in over ten years from 2014, the real value of Scottish direct payment receipts would be approximately €2.4 billion over 2014–20. This would be €1.2 billion less than Scottish farmers would receive as part of the UK, and €2.2 billion lower than a scenario where Scotland achieved €196/ha by 2020.

3.86 In a similar fashion to the recently acceded Member States, if it is subject to a ten-year phase-in, it may be that an independent Scottish state is able to negotiate a provision that would allow it to pay top-up payments to farmers from its own national budget to ensure that Scottish CAP recipients continue to receive support comparable to current levels (i.e. €130/ph). This would come at a significant cost to Scottish taxpayers (€1.2 billion spread over 2014–20) over and above the cost of their contributions to the EU budget. An independent Scottish Government would need to weigh the value for money of any such expenditure against other calls on its budget such as health and education.

Other receipts from the EU budget

Structural and Cohesion Funds receipts

3.87 The Structural Funds allocated to each Member State are determined through regional criteria based on socio-economic factors including relative GDP per capita, unemployment levels and population density. For the 2014–20 MFF, an independent Scottish state would get €567 million, a reduction of 32 per cent compared with Scottish SCF allocations for 2007–13. However, as a part of the UK, Scotland will see its Structural Funds receipts topped up, so that the real reduction compared with the current period is limited to 5 per cent. Their resulting allocation for 2014–20 will be €795 million, representing an uplift of €228 million compared with the situation if Scotland was an independent state.

Total receipts

3.88 Once receipts from other (smaller) parts of the EU budget are taken into account, an independent Scottish state's total receipts for the next MFF would, depending on what happens to CAP receipts, be expected to be between around €4.8 billion and €7.0 billion. By contrast, the equivalent receipts for Scotland, should it remain part of the UK, are estimated to be €6.3 billion.

Net contributions

3.89 Even under the most optimistic receipts scenario from the perspective of an independent Scottish state, the total impact of different levels of receipts is dwarfed by the impact of losing the benefit arising from the UK rebate.

3.90 As part of the UK, Scotland's net contribution would be around €3.7 billion across 2014–20. This is between around €2.2 and €4.3 billion less than its likely net contribution as an independent state over 2014–20.

3.91 Charts 3.1 and 3.2 illustrate how Scottish taxpayer costs, receipts and net contributions would be affected by independence compared with staying as part of the UK. Even under the most optimistic scenario, for every extra euro in CAP receipts for Scottish farmers, Scottish taxpayers would incur extra costs of over €3.00.

Chart 3.1: Changes to Scottish contributions and receipts for 2014–20: independence compared with Scotland as part of the UK (best case scenario for CAP receipts in Table A.1)

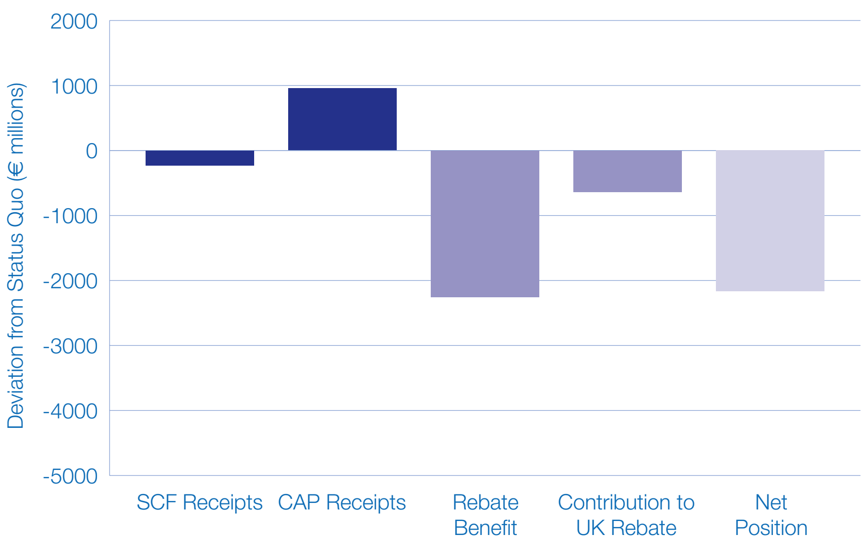
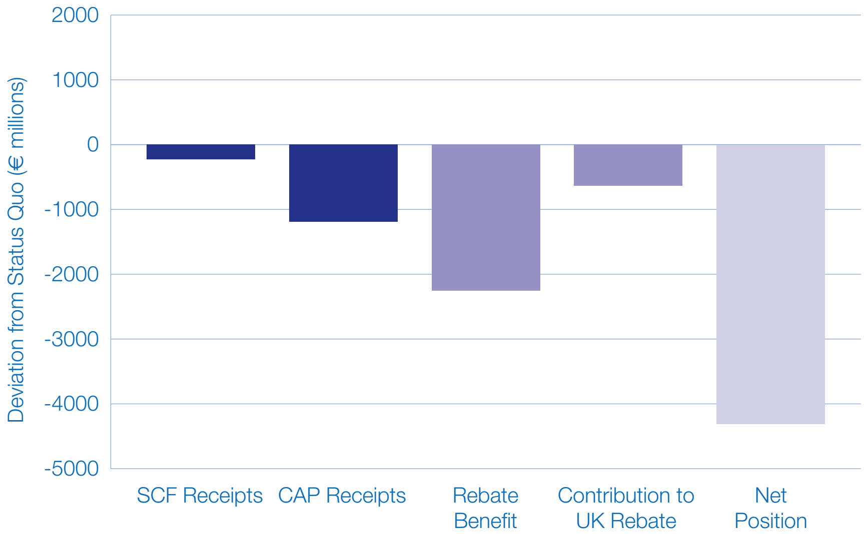


Chart 3.2: Changes to Scottish contributions and receipts for 2014–20: independence compared with Scotland as part of the UK (worst case scenario for CAP receipts in Table A.1)



Conclusion

3.92 This chapter has illustrated that an independent Scottish state's negotiations to become a member of the EU may be lengthy and complex depending on the terms of membership that the government of an independent Scottish state may seek to secure. Much may depend on whether an independent Scottish state would be willing to make concessions which would allow the negotiations to be completed within their already announced time-scale, or whether the date of independence would be postponed to allow time for further negotiation or, indeed, whether it would be willing to contemplate a period as a non-EU member with all the consequences that would entail. Other Member States, including those with domestic independence movements to consider, would need to reach a consensus on whether these arrangements should apply in an independent Scottish state.

3.93 Currently, people in Scotland have the best of both worlds – Scottish Ministers feed into the UK's EU negotiating position and attend EU Councils in which they have a particular interest; and the UK's experience and weight in the EU consistently delivers for Scottish people and businesses in priority areas for Scotland.

3.94 With no right to a share of the UK rebate from the EU, people in an independent Scottish state which eventually becomes an EU Member State would have to pay much more to the EU than they do currently as part of the UK.

3.95 The analysis presented within this paper suggests that, in the context of the EU budget, even under the best possible receipts scenario, Scotland would be significantly worse off as an independent state compared with the status quo. The situation in respect of receipts would be very uncertain. Taking the example of 2014–20, an independent Scottish state's net position would be between around €2.2 billion and €4.3 billion weaker (between €840 and €1,650 per household) than as part of the UK.

Annex A: An independent Scottish state and the EU budget

A.1 A key financial issue for an independent Scottish state as part of the EU would be its contributions to and receipts from the EU budget. The UK Government's first Scotland analysis paper, *Devolution and the implications of Scottish independence,* explained that an independent Scottish state would have to apply to the EU as any other new applicant state, and the terms of its membership would be a matter for negotiation. It follows, as regards the EU budget, that an independent Scottish state would not inherit the rights of the UK, and its obligations would be the same as for any other new EU Member State.

A.2 The Scottish Government's position, that the UK rebate could be 'shared' on the basis of bilateral negotiations between the UK and an independent Scottish state without re-opening the 2014–20 EU budget, misunderstands the nature of the rebate.[1]

A.3 The UK rebate is not a constant, annual lump sum amount that can be divided or shared. It is a function of the UK's respective shares in the EU economy and receipts. Any change in the size of the UK economy and receipts (for example as a result of Scottish independence) would be automatically reflected in the rebate calculation, with the new amount relating to the UK excluding Scotland. There would be no 'Scottish share' of the UK rebate left. For it to be otherwise would require a change to the rules relating to budgetary corrections such as the UK rebate. This would need the unanimous agreement of all EU Member States.

A.4 Given the negotiating realities of the EU, it would be extremely difficult for an independent Scottish state to secure its own budgetary correction on accession (something no other Member State has ever done) and, if it did, this would necessarily be at the expense of securing particular treatment in other areas (membership of the euro, the Schengen borderless travel area, Common Agricultural Policy (CAP) receipts etc). Furthermore, it is inconceivable that an independent Scottish state would secure a correction as substantial as the UK rebate. Instead, it would have to contribute to the UK rebate like other Member States.

1 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013

A.5 The accession date for an independent Scottish state is uncertain. So, to illustrate the effect of independence from an EU budget perspective, the impacts have been analysed over the course of the next Multiannual Financial Framework (MFF) period, 2014–20. Relative prosperity, and Gross National Income (GNI) in particular, is a key driver of contributions to the EU budget. If Scotland's share of North Sea oil revenue is determined on a geographical basis,[2] and assuming that an independent Scottish state was a member of the EU from 2014, the analysis described in this paper gives the following results.

- **The rebate:** Without a budgetary correction, it is estimated that an independent Scottish state would contribute a total of around €12.9 billion to the EU budget over 2014–20. As part of the UK, over the same period, the contribution made by Scottish taxpayers would be around €10.0 billion. The difference is the loss of the benefit from the UK rebate (€2.3 billion), the rest (about €640 million) arising from the Scottish contribution to the UK rebate, giving a total additional direct cost to Scottish taxpayers of around €2.9 billion (€1,100 per household).
- **Uncertainties around the CAP:** An independent Scottish state's receipts from the EU budget are uncertain and would depend on the terms of accession, which would have to be agreed by all 28 Member States. In particular, it is unclear whether CAP receipts would transit from current levels to €196 per hectare by 2020, or whether, in common with all 13 Member States that have joined the EU since 2004, full treatment in respect of CAP receipts would be phased in over ten years. This analysis therefore presents CAP receipts, total receipts and net contributions for an independent Scottish state as a range of numbers, reflecting both of these scenarios, and all possibilities in between, which might potentially be negotiated.
- **Structural Fund and CAP receipts:** Following recent decisions by the UK Government on intra-UK allocations of EU budget receipts for 2014–20, Scotland would receive €228 million less in Structural Funds if it were an independent state. Following the decision to allocate Scotland €3.6 billion in CAP Pillar 1 receipts for 2014–20, an independent Scottish state's CAP Pillar 1 receipts could range from around €1.2 billion less to around €950 million higher over 2014–20.
- **Net contributions:** However, the total impact of different levels of receipts is dwarfed by the impact of losing the benefit of the UK rebate. In short, even under the most optimistic scenario for CAP receipts, an independent Scottish state's net contribution would be around €2.2 billion (€840 per household) worse than it would be if Scotland were to remain part of the UK. Under this scenario, for every extra euro in CAP receipts for Scottish farmers, taxpayers would incur extra costs of over €3.00. Under less optimistic scenarios, an independent Scottish state could see its CAP (and total) receipts fall substantially, with the deterioration in net contributions over 2014–20 rising to as much as €4.3 billion (€1,650 per household) compared with the situation if Scotland were to remain part of the UK.

[2] A geographical share of North Sea oil and gas is used in this analysis for illustrative purposes; in the event of independence, it would be subject to negotiations with the continuing UK.

Structure and scope

A.6 This annex is divided into two parts. The first reviews the two analyses published by the Scottish Government on the issue of Scotland's estimated net contributions to the EU. The second section provides HM Treasury analysis of the likely gross contributions of an independent Scottish state over the 2014–20 MFF. It also examines the likely policy context for the CAP and the Structural and Cohesion Funds (SCFs) for an independent Scottish state, and reports estimates of receipts and net contributions. These estimates are then compared with receipts and estimates of net contributions for Scotland if it remains part of the UK.

A.7 The analysis in this paper assumes that Scotland gains independence and joins the EU in 2014. Clearly, given the timing of the referendum, there is no expectation that an independent Scottish state could join the EU from the start of 2014. Equally, any timetable for accession would be highly uncertain, depending in part on the negotiating stance adopted by the 28 existing Member States. So any date assumed for the start of EU membership for an independent Scottish state would be open to challenge.

A.8 Given that an EU budget framework for 2014–20 has just been agreed in Europe, and decisions for intra-UK allocations of Structural Fund and CAP receipts have recently been announced for the same period by the UK Government, the rest of this paper considers three scenarios (two relating to independence, and one in respect of the status quo) for the period 2014–20, with a view to illustrating the range of possible outcomes over a full MFF period.

Scottish Government estimates of EU budget contribution

A.9 In 2009 the Scottish Government published its own analysis of its 2007 net contribution to the EU budget.[3] This analysis allocates Scotland its population benefit from the UK rebate.

A.10 The key result of the Scottish Government's 2009 analysis is that in 2007, an independent Scottish state would have been a net contributor to the EU budget, with its net contribution ranging from €287 million to €512 million depending on differing assumptions on North Sea oil and gas revenues[4] (even while benefiting from the UK rebate). This implies that without a benefit from the UK rebate, an independent Scottish state would, in 2007, have faced a much larger net contribution of between around €766 million and €991 million, pushing Scotland's net contribution above those of the Member States with comparable populations and prosperity (as measured by Gross Domestic Product (GDP) per capita).

A.11 As part of its 2011–12 *Government Expenditure & Revenue Scotland* publication,[5] the Scottish Government looked at the question of an independent Scottish state's contributions to the EU budget. Unlike its previous work, which reported results in euros and in calendar years, this analysis reports estimates in sterling and in fiscal years. The analysis makes identical assumptions to its 2009 analysis when deriving estimates of gross contributions, including that Scotland would have benefited from the UK rebate in proportion to its population. Focusing on the most recent fiscal year in the report, the study finds an independent Scottish state's annual net contribution to be in the range of £209 million to £402 million, again depending on the division of North Sea oil revenue.

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3 *Estimating Scotland's Contribution to the EU budget*, Scottish Government, September 2009, www.scotland.gov.uk/Publications/2009/09/17135447/10

4 Ibid. In addition, the division of North Sea oil revenues will affect Scotland's GNI, which would affect its contribution to the EU.

5 *Government Expenditure & Revenue Scotland 2011–2012,* Scottish Government, March 2013, www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS

The Scottish Government's estimate of average net contributions across the 2007/08 to 2011/12 period lies within the range of £182 million to £354 million per year.

A.12 However, as the UK Government's first Scotland analysis paper, *Devolution and the implications of Scottish independence*[6] explains, an independent Scottish state would have to negotiate the terms of its membership of the EU afresh. Given the negotiating realities of the EU, it would be extremely difficult for an independent Scottish state to negotiate its own budgetary correction on accession and, if it did, this would necessarily be at the expense of securing particular treatment in other areas (the euro, Schengen, CAP receipts etc).

A.13 It is inconceivable that an independent Scottish state would secure a correction as substantial as the UK rebate. Instead, as a new Member State of the EU, it would have to contribute to the UK rebate like other Member States.

A.14 The rest of this paper uses a number of scenarios, based on the most reasonable assumptions about key variables, to analyse how an independent Scottish state would fare in respect of contributions to, and receipts from, the EU budget during 2014–20, compared with its position as part of the UK.

6 *Scotland analysis: Devolution and the implications of Scottish independence*, HM Government, February 2013, www.gov.uk/government/publications/scotland-analysis-devolution-and-the-implications-of-scottish-independence

HM Government estimates of an independent Scottish state's gross contributions to the EU budget[7]

The EU budget

Each EU Member State contributes to the EU budget, and those resources are distributed across five main expenditure categories and across each Member State. Annual ceilings are agreed under a seven-year financial framework known as the Multiannual Financial Framework (MFF), which, in 2013, was agreed for the period 2014–20.* On the expenditure side, the recent MFF deal means that more than two-thirds of EU funds are allocated to SCFs and the CAP.

The budget is funded primarily through 'own resources', which refers to revenue collected from Member States.

There are three types of own resources:

- **Traditional Own Resources (TOR)**, which are mainly import duties on goods brought into any given Member State from outside the European Customs Union. Member States retain 25 per cent of import duties collected in order to cover collection costs, and pass 75 per cent on to the European Commission;**
- **Value Added Tax (VAT)-based resource**, calculated by applying a set call rate to a hypothetical harmonised VAT base; and
- **Gross National Income (GNI)-based resource**, which reflects the residual EU budget expenditure to be financed once TOR and the VAT-based resource contributions are taken into account. The Commission estimates residual financing needs of the budget as the percentage of EU GNI, which is then applied uniformly to individual Member States' GNI. The GNI-based resource currently accounts for the largest share of own resources (68 per cent of total EU revenue in 2011).

* These ceilings were agreed at the European Council in 2013, and are part of an MFF regulation given consent by the European Parliament on 19 November 2013.

** The 25 per cent retained to cover collection costs is applicable under the current Own Resources Decision (i.e. the 2007 Own Resources Decision) relating to the 2007–13 financial framework. Under the MFF deal achieved at the February 2013 European Council, this has been revised downwards to 20 per cent, but will need to be agreed by Member States under a new Own Resources Decision.

[7] Henceforth, all figures are in constant (2011) prices except where indicated.

The EU budget (continued)

The EU budget is distributed across five categories, referred to as 'headings', where each is targeted at a particular policy area:

Heading 1: Sustainable Growth

- Heading 1a: Competitiveness for Growth and Employment
- Heading 1b: Structural and Cohesion Funds (SCFs)

Heading 2: Preservation and Management of Natural Resources, almost all of which goes to the Common Agricultural Policy (CAP)

- CAP Pillar 1: Market-Related Expenditure and Direct Aid
- CAP Pillar 2: Rural Development
- Fisheries, LIFE+ etc.

Heading 3: Citizenship, Freedom, Security and Justice

Heading 4: EU as a Global Player

Heading 5: Administration

Gross contributions

A.15 On the revenue side of the budget, an examination of the impact of the recent MFF deal on any given Member State would typically require forecasts of GNI, a hypothetical harmonised VAT base and customs duties, all of which affect Member State contributions (see box). For Scotland, forecasts of these variables are not available.

A.16 In the absence of such forecasts for Scotland, this analysis utilises historical data[8] to estimate Scotland's overall financing share of EU expenditure across 2011–12, and applies this to the payments ceiling agreed for the 2014–20 MFF to derive an independent Scottish state's likely gross contributions to the 2014–20 MFF.

A.17 As already noted, an independent Scottish state would have to negotiate the terms of its membership of the EU afresh. An independent Scottish state could ask for a budgetary correction during its accession negotiations, but this would require the unanimous approval of all Member States.

A.18 To complete the picture, an estimate of the contributions that an independent Scottish state would (like other Member States) have made to the UK rebate across 2011–12 is also required. This is determined by its share in total EU GNI. On this basis, Scotland's

[8] The UK fiscal framework does not provide a breakdown of the UK's gross contribution to the EU budget at the devolved level. An estimate of Scotland's historical GNI-based contribution requires an estimate of Scotland's GNI. For the purposes of the present analysis, this is done by taking the ratio of Scottish GDP to UK GDP and applying it to the 2011–12 outturn data on the UK's GNI contribution. The Scottish Government provides two different measures of GDP, reflecting different assumptions on the division of North Sea oil revenues: (i) one based on the population share of North Sea revenues; and (ii) another based on the geographical share of North Sea oil and gas revenues. Scotland's historical VAT-based contribution is estimated on the basis of its share of UK household VAT expenditure from the 2010 Expenditure and Food Survey (8.8 per cent) and applying it to the 2011–12 outturn data on the UK's VAT-based contributions. Finally, Scotland's historical TOR contribution is estimated by calculating its share in UK total imports (4.4 per cent), derived from the 2005 Scottish Government and Office for National Statistics input-output tables, and applying it to the 2011–12 outturn data on UK TOR contributions. In all three cases, outturn data is drawn from the European Commission's Financial Reports.

contribution to the UK rebate would add as much as €640 million (€250 per household) to Scotland's contributions to the 2014–20 MFF.

A.19 Given estimates of an independent Scottish state's historical GNI, TOR and VAT-based contributions, together with an estimate of its contribution to the UK rebate, it is possible to derive its historical financing share of the EU budget. Applying this financing share estimate to the payments ceiling for the 2014–20 MFF (€908.4 billion), Scotland's annual gross contribution to the next MFF is estimated to be €1.8 billion (around €730 per household[9]), assuming that North Sea oil and gas revenues are split between Scotland and the UK on a geographical basis (which gives Scotland a higher share of the revenues compared with a population basis).

A.20 If Scotland remains part of the UK, its taxpayers would continue to benefit from the rebate (by around €320 million per year) and would not have to contribute to it.[10] As a result, Scottish taxpayers' gross contributions would be lower, at around €1.4 billion per year, implying a benefit worth over €400 million per year to Scottish taxpayers over 2014–20[11] compared with an independence scenario.

A.21 In short, the gross cost to Scottish taxpayers of contributions to the EU budget is around €2.9 billion less as part of the UK over 2014–20 than is likely if there was an independent Scottish state.

An independent Scottish state's receipts from the EU budget

Common Agricultural Policy receipts

A.22 CAP receipts are split into two separate funds. Pillar 1 (subsidy) represents the bulk of CAP expenditure and is mainly in the form of direct payments to farmers. Pillar 2 in contrast is used to fund environmental and rural economic growth programmes. Pillar 1 direct payments were initially allocated across the EU (and within the UK) based on previous levels of agricultural production. The more a Member State or region produced, the more funding it received. For the vast majority of such subsidies, there is no longer a direct link between what farmers produce and what they receive in subsidy, but areas with historically higher agricultural production continue to receive relatively more subsidy.

Summary of current position

A.23 When direct payments were introduced, they were based on historical levels of production. In Scotland, payments are spread across a wide area of land, much of it low productivity, meaning that Scotland receives relatively low rates of direct payments on a per-hectare basis. Within the UK, Scotland currently receives €130 per hectare (/ha) compared with the EU average of €268/ha.

9 This has been estimated by multiplying the estimate for gross contributions per capita by the projection for average household size. The gross contribution per capita projection is based on projections of Scotland's population across 2014–20. The average household size projections are taken from the National Records of Scotland (NRS) database; these projections are for five-year intervals, so the average of 2015 and 2020 is used to reflect the typical household size across the 2014–20 MFF.

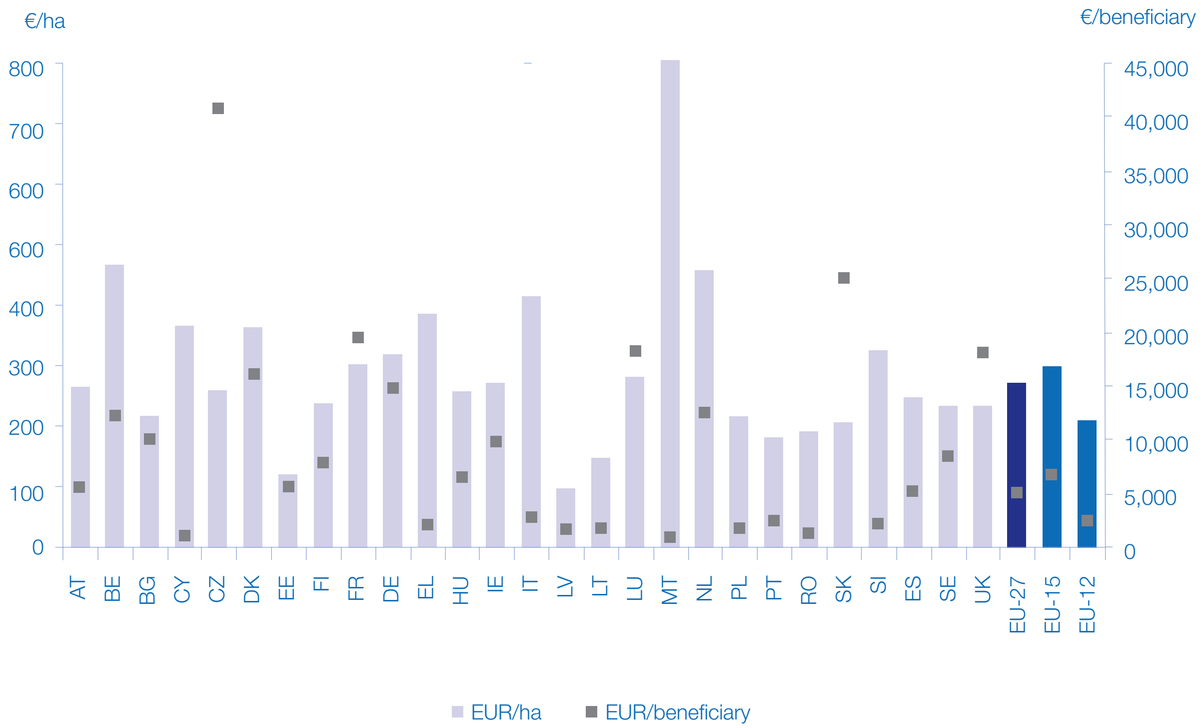
10 The approach to estimating Scotland's gross contributions as part of the UK is similar to the approach used when estimating gross contributions for an independent Scottish state. The key difference is the treatment of the UK rebate in the calculation. When estimating Scotland's historical financing share as part of the UK, it is allocated its population share of the UK rebate.

11 Since the Scottish Government does not contribute to the EU, but Scottish taxpayers do indirectly via the UK tax system, it could be argued that Scotland's historical GNI contribution should be estimated on the basis of its share in UK total tax receipts. These are found to be very similar to Scotland's share in UK GDP, and therefore would have a minor impact on these estimates (the impact of such an approach on Scotland's gross contributions would be a total of between €100 million and €200 million over 2014–20).

A.24 The UK Government argued in the recent round of negotiations, at the request of the current Scottish Government, for flexibility to exclude land that is not actively farmed from receipts of direct payments. This would increase, to some extent, the per-hectare payments allocated to land that is under active production.

A.25 Comparing per-hectare payments is, however, just one means of analysing how payment levels differ across the UK. Due to the relatively large average farm size in Scotland, Scottish receipts per farm compare favourably with the UK average. The average annual payment for farmers who are eligible in Scotland is £25,700, compared with £17,400 in England, £16,200 in Wales and £7,300 in Northern Ireland (2011 figures). Scotland's average annual payment per farmer (just over €30,000, assuming £1=€1.18) is also among one of the highest average payments across the EU (see Chart A.1).

Chart A.1: Average direct payments per beneficiary (right-hand side) and per hectare (left-hand side)



Source: Directorate-General for Agriculture and Rural Development[12]

Implications of independence

A.26 The amount that an independent Scottish state would receive in direct payments would depend on the terms of its accession, which would need to be negotiated with 28 Member States. Irrespective of any goodwill towards a prospective new Member State, other EU Member States can be expected to approach an accession negotiation according to their national interest.

A.27 In the short term, if an independent Scottish state did not become a Member State immediately after becoming independent of the UK, then CAP receipts would be interrupted. Any continuation of existing levels of support to farmers would require funding from a Scottish national budget (somewhere between €550 million and €600 million per year (2011 prices), depending on the year in question).

12 *The Future of CAP Direct Payments*, Agricultural Policy Perspective Brief No. 2, European Commission, January 2011, http://ec.europa.eu/agriculture/policy-perspectives/policy-briefs/02_en.pdf

A.28 For its part, the Scottish Government has assumed that Scotland's EU membership would continue seamlessly and has asserted that Scottish farmers would have received an additional €1 billion in funding from Pillar 1 if there was already an independent Scottish state.[13] This assertion is made on the basis of the 2014–20 MFF agreement, that all Member States are guaranteed a minimum of €196/ha[14] by 2020. The Scottish Government claim is that if Scotland was already an independent state, and an established Member State in its own right, it would see a real terms uplift in direct payment receipts of approximately 30 per cent from 2013 to 2020, giving Pillar 1 receipts over the next MFF of approximately €4.6 billion (2011 prices).

A.29 However, it is difficult to see all 28 Member States agreeing to this sort of approach. There are two main reasons for this:

- the negative impact on CAP receipts in other Member States; and
- the approach taken in the three most recent accessions, requiring that CAP receipts are phased in over ten years in new Member States.

A.30 As a result of the recent EU budget deal, the CAP budget is falling by 13 per cent in real terms in 2014–20, and it can be assumed that other Member States' governments would be extremely reluctant to agree to the accession of an independent Scottish state on terms that would result in a further cut to their own CAP receipts for 2014–20.

A.31 Recent experience helps to give perspective to this issue. During the most recent CAP reform negotiations when the European Commission proposed relatively modest inter-Member State reallocations of CAP receipts phased in over 2014–20, this proved to be very controversial, especially among those Member States that would lose receipts to fund the transfer.

A.32 In the end, in order to fund the uplift for the three Member States (Latvia, Lithuania and Estonia) that will receive €196/ha by the end of 2020, most other Member States will see a total reduction of €1.1 billion in Pillar 1 receipts. This is over and above the cuts arising from the falling CAP budget. If an independent Scottish state were to seek accession on the basis that its CAP receipts start at levels similar to current Scottish CAP receipts as part of the UK, and then move to €196/ha, there could be no realistic expectation that the seven-year budget deal for 2014–20 would be re-opened. This means that the 28 other Member States would have to agree to cuts in their CAP receipts of around €950 million during 2014–20. Given the experience of the recent EU budget and CAP reform negotiations, this would be a very complex and controversial deal to negotiate.

A.33 It is also worth noting that the norm for new entrants during the more recent accessions of 2004[15] and 2007[16] (and for Croatia in 2013) is for direct payments to be phased in over a ten-year period. Until the end of that ten-year period, new Member States only receive a growing proportion of their 'full entitlement' each year.[17]

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13 *Scotland's future: Your guide to an independent Scotland*, Scottish Government, November 2013

14 Current prices.

15 Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

16 Bulgaria and Romania.

17 Ten-year phase-ins agreed for Member States acceding in 2004, 2007 and 2013 have seen a growth in the share of 'full entitlements' to direct payments in line with the percentages set out below:

Year	1	2	3	4	5	6	7	8	9	10
%	25	30	35	40	50	60	70	80	90	100

A.34 It can be anticipated that there would be pressure from recent entrants or other Member States to ensure that subsequent new entrants are treated in a similar fashion.

A.35 So there is the possibility that Scottish CAP receipts could be considerably lower than they currently are for a number of years. For example, for the period 2014–20, as part of the UK, the real value of direct payment receipts to Scotland under the current allocation is €3.6 billion (2011 prices). Under a scenario where 'full entitlement' is phased in over ten years from 2014, the real value of Scottish direct payment receipts would be approximately €2.4 billion over 2014–20. This would be €1.2 billion less than Scottish farmers will receive as part of the UK, and €2.2 billion less than a scenario where Scotland achieved €196/ha by 2020.

A.36 In a similar fashion to the recently acceded Member States, if it is subject to a ten-year phase-in, it may be that an independent Scottish state is able to negotiate a provision that would allow it to pay top-up payments to farmers from its own national budget to ensure that Scottish CAP recipients continue to receive support comparable with current levels (i.e. €130/ha). This would help to prevent any drastic fall in payments in the early years of accession, but would come at a significant cost to Scottish taxpayers (€1.2 billion spread over 2014–20) over and above the cost of their contributions to the EU budget. An independent Scottish Government would need to weigh the value for money of any such expenditure against other calls on its budget such as health and education.

A.37 How Scotland would be treated in terms of its CAP receipts is highly uncertain and would be a matter for negotiation between Scotland and the 28 other EU Member States, including the 13 new EU Member States that have either recently concluded or are still undergoing phased-in treatment under the CAP.

Analysis

A.38 For the purposes of analysing an independent Scottish state's EU budget receipts and net contributions over 2014–20 (results presented in Tables A.1 and A.2) we present two scenarios, which map out the range of possible outcomes. The first is the Scottish Government's earlier argument that under independence it would converge towards €196/ha by 2020, delivering a direct payment budget of €4.6 billion (2011 prices). The second is to assume that an independent Scottish state would see its 'full entitlement' to direct payments gradually phased in over a ten-year period (starting in 2014) in a similar fashion to the newer Member States. For 2014–20 this would deliver a direct payment budget from the CAP of €2.4 billion (2011 prices). These figures are compared with the direct payment budget of €3.6 billion that Scotland would receive over 2014–20 as part of the UK.

Structural and Cohesion Fund receipts

A.39 The SCF funding allocated to each Member State is determined through regional criteria based on socio-economic factors including relative GDP per capita, unemployment levels and population density, which are summed to give a Member State an allocation for the period. Similar to CAP receipts, Scotland's Structural Fund receipts supplement Scottish Government expenditure without the Scottish Government having to make a contribution to the EU budget.

A.40 Member States have some degree of flexibility in how they allocate these funds internally. This allows Member States to direct the funds to where they will be best used in line with national priorities. In both the 2007–13 and the 2014–20 financial frameworks, Scotland benefited directly from this provision:

- The UK's Structural Fund allocations for 2007–13 are €10.8 billion, and Scotland was allocated around 8 per cent, or €840 million, of this. Scotland would have received lower Structural Fund receipts had the UK strictly followed the EU-level formula.
- For the 2014–20 MFF, an independent Scottish state would get €567 million, a reduction of 32 per cent compared with Scottish Structural Fund receipts in 2007–13. However, because of the decision taken by the UK Government[18] to ensure that England, Scotland, Wales and Northern Ireland all see equal cuts to their respective Structural Fund receipts in 2014–20 compared with 2007–13, as a part of the UK Scotland will see its Structural Funds receipts fall by only 5 per cent. Its resulting allocation for 2014–20 will be €795 million, representing an uplift of €228 million compared with the situation if it were an independent state.

A.41 The uncertainty surrounding Scotland's EU membership could have significant implications for Structural Fund receipts. In the short term, if an independent Scottish state were not immediately to become a Member State, then its Structural Fund receipts would likely be interrupted. In the medium term, an independent Scottish state would not be able to benefit from internal UK reallocations of funds at the start of each new financial perspective.

Receipts under other headings

A.42 In addition to receipts from SCFs and CAP, estimates are also made for receipts under Headings 1a (Competitiveness for Growth and Employment), Heading 3 (Citizenship, Freedom, Security and Justice) and Heading 5 (Administration)[19] of the EU budget. Expenditure under these other headings is allocated on a different basis compared with the CAP and SCFs, with a substantial amount allocated to individual projects after a competitive bidding process. To estimate these receipts, the approach used in this annex is to draw on historical shares. In line with the Scottish Government's analysis, this analysis allocates an independent Scottish state's population share of UK receipts across the period 2011–12 under these headings. These shares are then applied to the total agreed ceilings for these headings over the 2014–20 period in order to generate an estimate of approximately €200 million per year in receipts under Headings 1a, 3 and 5 over 2014–20.[20]

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18 The final Structural Fund allocations are subject to European Commission agreement. It should be noted that the allocations are also subject to an ongoing judicial review sought by the Liverpool and Sheffield City Regions.

19 Heading 4 (EU as a Global Player) is unallocated expenditure, i.e. it is not allocated across Member States.

20 These receipt figures are all based on 'commitments'. In fact, because programmes under Headings 1 and 3 and Pillar 2 of the CAP do not spend all funds in the same year they are committed, 'payments' (the money drawn down from the EU budget) are generally lower than commitments. For the sake of simplicity, in generating estimates of net contributions, no difference is assumed between commitments and payments when estimating Scottish receipts. This will tend to slightly overstate receipts and slightly underestimate Scottish net contributions in 2014–20 (in both scenarios presented).

Total receipts

A.43 An independent Scottish state's total annual receipts for the next MFF would be expected to be between around €690 million per year (with a ten-year phase-in for CAP receipts) and €1.0 billion per year (if Scotland transits from €130/ha to €196/ha by 2020). By contrast, the equivalent receipts for Scotland should it remain part of the UK are estimated to be around €900 million per year.[21]

An independent Scottish state's net contribution to the EU budget

A.44 GNI levels are a key driver of gross and net contributions to the EU budget. Table A.1 shows gross and net contribution estimates if Scotland's share of North Sea oil revenue was to be determined on a geographical basis. It is estimated that an independent Scottish state's net contribution to the EU budget would average between around €840 million and €1.15 billion per year over the 2014–20 period. This corresponds to between around 0.40 per cent and 0.54 per cent of its GNI. Table A.1 shows that an independent Scottish state's net contribution, per average household, would be between around €320 and €440 per year across 2014–20.

A.45 Scotland's net position for 2014–20 as part of the UK is significantly better; a net contribution of around €530 million or around €200 per average household per year, with the SCF receipts €228 million higher over 2014–20 than they would otherwise be. CAP receipts would be between around €1.2 billion higher and around €950 million lower over 2014–20 than under an independence scenario. Nevertheless, these numbers are dwarfed by the benefits to Scottish taxpayers, as part of the UK, arising from the UK's rebate (around €2.9 billion over 2014–20).

A.46 In short, as part of the UK, Scotland's net contribution would be around €3.7 billion across 2014–20. This is between €2.2 billion and €4.3 billion less than its possible net contribution as an independent state over 2014–20.

Table A.1: Average Scottish EU budget receipts and contributions per year during 2014–20 under a range of scenarios – North Sea oil revenues allocated on a geographical basis[22]

Receipts/contributions (€ billion)	Independence scenario: Pillar 1 receipts phased in over ten years	Independence scenario: Pillar 1 receipts €196/ha by 2020	Remain as part of the UK[23]
CAP Pillar 1	0.35	0.66	0.52
SCFs	0.08	0.08	0.11
Total receipts	0.69	1.00	0.90
Value of UK rebate to Scotland	-0.09	-0.09	0.32
Gross contributions	1.84	1.84	1.43
Gross contributions per household (€)	705	705	546
Net contributions	1.15	0.84	0.53
Net contributions as percentage of GNI (%)	0.54	0.40	0.25
Net contributions per household (€)	439	323	203

21 Based on intra-UK allocations of CAP and SCF receipts, and a population share of receipts across other headings.

22 These calculations are estimated on the basis of commitments (budgeted allocations) and Scottish GNI including a population share of North Sea oil and gas revenue, and are expressed as € billion (2011 prices), except for estimates of gross and net contributions per capita.

23 Scotland's share of UK CAP Pillar 1 receipts are unchanged compared with 2013.

A.47 If an independent Scottish state is allocated its population share of North Sea oil revenues instead of the geographical share assumed in the estimates in Table A.1, Scotland's GNI, and therefore its estimated gross and net contributions, would be lower. Even under this GNI scenario (see Table A.2), total 2014–20 annual net contributions for an independent Scottish state are estimated to be between around €630 million and around €930 million, which corresponds to between around €240 and €360 per average household. As part of the UK, the net contribution would be less than €330 million per year, or around €130 per average household.

A.48 Although the absolute sizes of gross and net contributions in Table A.2 are lower than in Table A.1, the respective gaps between the independence scenarios and where Scotland remains as part of the UK are similar.

Table A.2: Average Scottish EU budget receipts and contributions per year during 2014–20 under a range of scenarios – North Sea oil revenues allocated on a population basis[24]

Receipts/contributions (€ billion)	Independence scenario: Pillar 1 receipts phased in over ten years	Independence scenario: Pillar 1 receipts €196/ha by 2020	Remain as part of the UK[25]
CAP Pillar 1	0.35	0.66	0.52
SCFs	0.08	0.08	0.11
Total receipts	0.69	1.00	0.90
Value of UK rebate to Scotland	-0.06	-0.06	0.32
Gross contributions	1.62	1.62	1.22
Gross contributions per household (€)	622	622	471
Net contributions	0.93	0.63	0.33
Net contributions as percentage of GNI (%)	0.51	0.35	0.18
Net contributions per household (€)	357	241	127

A.49 In the context of recent outturn data, Tables A.1 and A.2 would place an independent Scottish state among the 11 net contributors. The numbers in Table A.1 suggest that under the best-case scenario for an independent Scottish state in respect of receipts, its net contribution to the EU budget (as a percentage of its GNI) would be comparable to Finland and Austria (both of which have higher levels of GNI per capita).

A.50 Under the worst-case scenario (a ten-year phase-in of CAP receipts) an independent Scottish state's net contribution would also be far above the net contributions (as a percentage of GNI) of Italy and France. It would be comparable to Germany, Denmark and Sweden.

A.51 Charts A.2 and A.3 illustrate how Scottish taxpayer costs, receipts and net contributions would be affected by independence compared with remaining part of the UK. For example, even under the most optimistic scenario, for every extra euro in CAP receipts for Scottish farmers, taxpayers would incur extra costs of over €3.00.

[24] These calculations are estimated on the basis of commitments (budgeted allocations) and Scottish GNI including a population share of North Sea oil and gas revenue, and are expressed as € billion (2011 prices), except for estimates of gross and net contributions per capita.

[25] Scotland's share of UK CAP Pillar 1 receipts are unchanged compared with 2013.

Chart A.2: Changes to Scottish contributions and receipts for 2014–20: independence compared with Scotland as part of the UK (best-case scenario for CAP receipts in Table A.1)

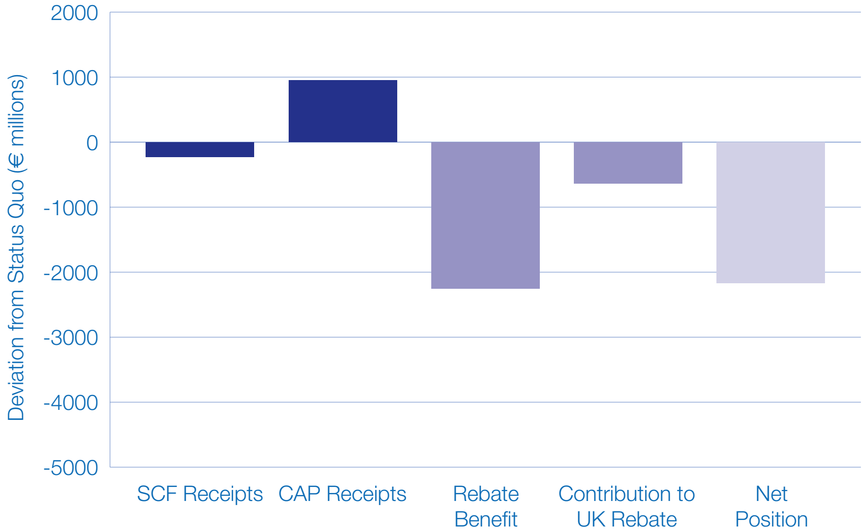
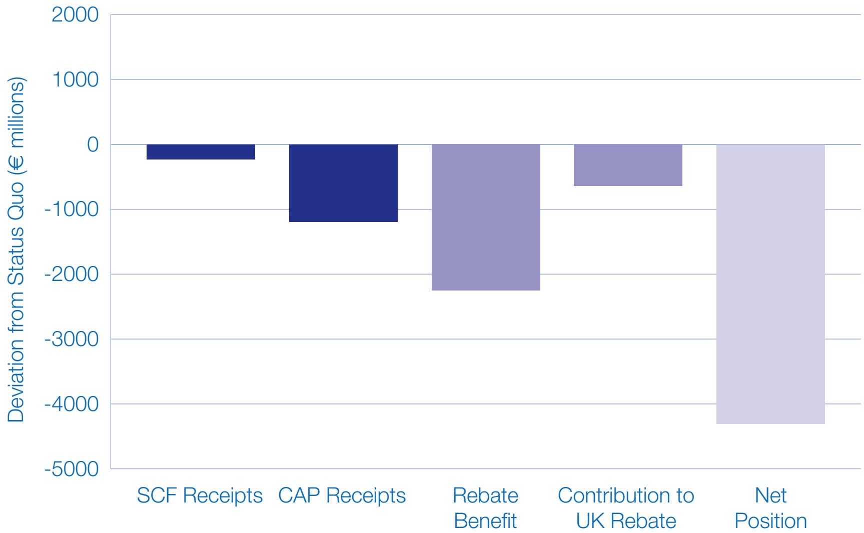


Chart A.3: Changes to Scottish contributions and receipts for 2014–20. Independence compared with Scotland as part of the UK (worst-case scenario for CAP receipts in Table A.1)



A.52 All of the analysis presented in this annex assumes that an independent Scottish state would not receive a budgetary correction. Indeed, no Member State has ever negotiated a budgetary correction on its accession to the EU. However, it is true that an independent Scottish state would be able to ask for a correction of its own during accession negotiations. In the unlikely event that it was granted a correction by the unanimous approval of all Member States, it would not be reasonable to assume that it would be more generous than that negotiated by Denmark at the 2014–20 MFF negotiations (the only new correction for 2014–20). On the basis of the correction given to Denmark (€130 million per year), adjusted for Scotland's population, an independent Scottish state could get a correction worth €128 million per year across 2014–20. Even with such a correction, an independent Scottish state would still face gross and net contributions that are much higher than they would be if Scotland remained part of the UK.

A.53 It is inconceivable that an independent Scottish state would be able to negotiate a correction that would fully compensate for the loss of the benefits of the UK rebate (worth around €860 per Scottish household in total across 2014–20). And the negotiating dynamics in Europe are such that if Scotland were to prioritise securing a modest correction, it would necessarily be at the expense of any objectives it might have in respect of other issues that are difficult to negotiate (such as opt-outs in respect of Schengen and the euro, or in respect of CAP receipts etc.).

Other considerations

A.54 As a net contributor, an independent Scottish state's incentives with respect to the EU budget would be very different compared with the status quo. The current Scottish Government benefits from EU receipts without itself making a contribution to the cost of the EU budget (although Scottish taxpayers do as part of the UK's contribution to the EU budget), but for an independent Scottish state, the larger the EU budget, the greater its cost would be (gross and net).

A.55 As net contributors to the EU budget, both an independent Scottish state and the UK would have an interest in EU budget discipline. It is debatable whether the interests of EU budget discipline are best advanced if Scotland becomes an independent state or whether there are economies of scale in an EU negotiating context. However, in practice, if an independent Scottish state were to prioritise securing its own correction, this would tend to reduce its room for pressing for greater EU budget discipline.

A.56 Economies of scale are also a potential factor when it comes to managing the impact of any given EU budget deal. To the extent that there are national flexibilities and scope for internal transfers, there may be more scope for managing the stability of EU receipts for Scotland as part of the UK. For example, as noted earlier, following the February European Council deal, Scotland is benefiting from a €228 million transfer of Structural Funds from the rest of the UK, to ensure that the overall real terms cut in such receipts is shared more evenly than would otherwise be the case.

Conclusion

A.57 The analysis presented within this paper suggests that, in the context of the EU budget, Scotland would be significantly worse off as an independent state compared with its position as part of the UK, while the situation in respect of CAP receipts would be very uncertain. In particular, any uplift in CAP receipts for Scottish farmers, compared with the status quo, would require the agreement of 28 other Member States, most – if not all – of which would be opposed to the idea of cutting the receipts of their own farmers to accommodate any such uplift. Furthermore, 13 of these Member States were the subject of a ten-year phase-in of their 'full entitlement' to CAP receipts, from their accessions in 2004, 2007 and 2013 respectively. It can be expected that these Member States would bridle at any suggestion that an independent Scottish state seeking accession to the EU would be spared such a phase-in.

A.58 Taking the example of 2014–20, an independent Scottish state's gross contribution would be around €2.9 billion higher, and its net position would be between around €2.2 billion and €4.3 billion weaker, than it would be if Scotland were to remain part of the UK. This implies that over the same period, its gross contribution would be around €1,100 higher per average household, and its net contribution would be between around €840 and €1,650 higher per average household, than it would be if Scotland were to remain part of the UK.

Annex B: The UN Specialised Agencies

B.1 The Specialised Agencies are an important part of the United Nations (UN) system. They are autonomous bodies, either set up by the UN or linked to it through special agreements, coordinating global positions or activity across a range of technical areas.

B.2 The UK's size and the range of its expertise mean that its voice is heard right across the range of international cooperation, from scientific endeavours such as the European Organization for Nuclear Research (CERN) and the European Space Agency to the bodies that keep the world communicating such as the Universal Postal Union and the International Telecommunication Union.

B.3 The UK is a member of most of the UN's Specialised Agencies and a major contributor to them, giving it considerable influence in decision making to the benefit of UK interests. Examples include:

- supporting the work of the World Health Organization (WHO) on the International Health Regulations (IHR) which help prevent and respond to acute public health risks that have the potential to cross borders and threaten people worldwide. The system of alerts set up under the IHR has helped prevent pandemics such as severe acute respiratory syndrome (SARS) and avian influenza from taking hold in any part of the UK; and
- ensuring that the international intellectual property system is balanced and effective and best able to protect the UK's intellectual property rights through the World Intellectual Property Organization (WIPO).

B.4 This annex sets out a detailed analysis of the UN Specialised Agencies of which the UK is a member. Assessed contributions are based on the UK Government's contribution to the UN regular budget. The scale is negotiated every three years. The last was agreed at the end of 2012, when the UK's contribution fell from 6.64 per cent to 5.18 per cent.

Food and Agriculture Organization (FAO)	
The FAO's primary aim is to achieve food security for all and to make sure that people have regular access to enough high quality food to lead a healthy life, as well as raising levels of nutrition, improving agricultural productivity and contributing to the growth of the world economy.	
UK activity	The UK has a Permanent Representative based in Rome who covers the FAO. UK interests are focused on encouraging appropriate prioritisation of the FAO work programme and its cost effectiveness. The UK favours wide membership of FAO regional fisheries bodies, and seeks to participate in these as full members wherever the UK can play a constructive role.
UK contributions	£20.46 million assessed (2012). The UK paid 6.675 per cent of the budget in 2011 (date of last available UN figures). Voluntary contributions are ad hoc and relate to specific programmes and initiatives.
Criteria for membership	States can be admitted by application and by gaining a two-thirds majority vote. It is also expected that assessed contributions will need to be made equivalent to Gross Domestic Product (GDP).
How does UK membership benefit Scotland?	UK membership of the FAO affords influence on priority policy areas for Scotland, such as regulations and guidelines for international fisheries. Owing to the size of its contribution, the UK has significant influence at the FAO, with a quasi-permanent seat on the FAO's Council, which makes decisions on policy priorities and budget.
Likely contribution of an independent Scottish state	Likely to be in the region of 0.5–0.8 per cent, translating to $5–8.8 million.

International Labour Organization (ILO)	
The ILO is the international organisation responsible for drawing up and overseeing international labour standards. It is the only 'tripartite' UN agency that brings together representatives of governments, employers and workers jointly to shape policies and programmes promoting decent work for all. This unique arrangement gives the ILO an edge in incorporating 'real world' knowledge about employment and work.	
UK activity	The UK attends the International Labour Conference (ILC) in Geneva every June, in a delegation which includes employer and worker representatives. The ILC establishes and adopts international labour standards and is a forum for discussion of key social and labour questions. The UK is one of ten permanent members of the Governing Body, the executive body of the ILO, along with Brazil, China, France, Germany, India, Italy, Japan, Russia and the United States (US). The Governing Body meets three times a year to take decisions on ILO policy, decide the agenda of the ILC, adopt the budget and elect the Director-General.
UK contributions	£15.8 million assessed (2013). The UK is the fourth largest donor behind the US, Japan and Germany. The UK paid 6.607 per cent of the budget in 2013 (date of last available UN figures).
Criteria for membership	Under the terms of the ILO constitution there are two ways for states to gain membership. An existing member of the UN may become a member of the ILO by communicating to the Director-General its formal acceptance of the obligations of the constitution. An independent Scottish state would therefore first have to be in the UN to gain membership this way. Alternatively the General Conference of the ILO may also admit members by a vote concurred in by two-thirds of the delegates attending the session, including two-thirds of the government delegates present and voting. Admission takes effect on the communication to the ILO Director-General by the government of the new member of its formal acceptance of the obligations of the constitution.
How does UK membership benefit Scotland?	The UK Government and UK employer and worker representatives have represented Scottish interests, along with those of the rest of the UK, in the ILO, for example when coordinating reports on ILO conventions and recommendations, which include contributions from Scotland and the other devolved administrations. The Scottish Government is invited to attend the ILC as part of the UK delegation. The UK, as one of the leading ILO Member States and a permanent member of the Governing Body, has greater influence than many smaller countries. An independent Scottish state would not be a permanent member of the Governing Body.
Likely contribution of an independent Scottish state	Likely to be in the region of 0.5–0.7 per cent, translating to $2.2–2.9 million.

United Nations Educational, Scientific and Cultural Organization (UNESCO)	
UNESCO's mission is to contribute to the building of peace, the eradication of poverty, sustainable development and inter-cultural dialogue through science, culture, communication and information. It particularly focuses on two areas: Africa and gender equality.	
UK activity	The UK has Permanent Representation in UNESCO, including an Ambassador and a Board Member, as well as representatives from the National Commission. The UK participates in negotiations that impact on UK interests in various specialist policy groups on culture, science and communications.
UK contributions	£16 million assessed (2012). The UK paid 6.605 per cent of the budget in 2011 (date of last available UN figures). Voluntary contributions are ad hoc.
Criteria for membership	States can be admitted by application to the General Conference every two years. Member States have to establish a 'National Cooperating Body', usually a National Commission.
How does UK membership benefit Scotland?	The UK is the fourth largest contributor to the UNESCO budget. As a member of the Executive Board, the UK maintains strong influence on the planning and management of UNESCO's programmes and budget. The UK National Commission's Scotland Committee provides a means for civil society, institutions and individuals in Scotland to contribute directly to the work of UNESCO through the framework of the UK's membership. The Scottish Government is directly involved in regular consultation with the UK Government on UNESCO work. Until an independent Scottish state could secure membership of UNESCO in its own right, new accreditations for World Heritage Sites and other UNESCO schemes (such as biosphere reserves and UNESCO Chairs) would not be accepted, and existing ones would be reviewed on a case-by-case basis depending on conditions set out in their accreditation agreement. Numerous legal instruments ratified by the UK, including the World Heritage Convention, would no longer apply to Scotland.
Likely contribution of an independent Scottish state	Likely to be around 0.6 per cent, translating to £1.6 million.

International Civil Aviation Organization (ICAO)	
The ICAO is the agency responsible for air safety, promoting the safe and orderly development of international aviation and setting standards and regulations for aviation safety, security, efficiency and regularity.	
UK activity	The UK has a Permanent Representative as well as an Air Navigation Commissioner. The UK participates in various specialist policy groups on safety, environment and security.
UK contributions	£3–3.5 million annual assessed contributions (2011–13) – the fourth largest contributor – plus voluntary contributions. The UK paid 5.68 per cent of the budget in 2011 (date of last available UN figures).
Criteria for membership	All UN states are normally admitted. An independent Scottish state would need to make contributions in proportion to its GDP and aviation activity, adhere to certain aviation standards (which it does now by virtue of being part of the UK) and establish bodies and plans to maintain its adherence.
How does UK membership benefit Scotland?	As one of the largest contributors, the UK has particular weight in ICAO discussions. This weight benefits Scotland and the rest of the UK equally.
Likely contribution of an independent Scottish state	Assessed contributions are based on GDP and aviation activity. An independent Scottish state's contributions could be similar to Ireland's, at around £200,000 a year.

International Maritime Organization (IMO)	
The IMO is responsible for the safety and security of shipping and the prevention of pollution.	
UK activity	The IMO is based in London. The UK has Permanent Representation to the IMO, which oversees UK interests on maritime safety and security.
UK contributions	£1.4 million in 2011. The UK paid 4.7 per cent of the budget in 2011 (date of last available UN figures).
Criteria for membership	Any UN state can join the IMO by applying the 1948 Convention.
How does UK membership benefit Scotland?	As a founder member, host and leading state in the IMO, with a strong maritime sector, the UK is highly influential. This has been reflected in the UK's efforts to protect UK, including Scottish, ship owners and operators from unnecessary regulatory burdens, and the IMO's measures to reduce the incidents of pollution. This is of particular benefit to Scotland by reducing the likelihood of damage to its coastline with an impact on its tourist and aquaculture interests.
Likely contribution of an independent Scottish state	Assessed contributions depend on a nation's maritime sector, and in particular its 'flag' (based on the tonnage of the ships registered with that country). It is not possible to estimate how many vessels currently on the UK flag would opt to join a new independent Scottish flag (or indeed whether a Scottish flag state regime would attract additional vessels not currently on the UK flag). The size of a national flag is not primarily determined by the size of the country or economy – for example Marshall Islands (population c.55,000) has the third largest flag in the world. The UK is currently the sixth largest flag, a significant part of which is associated with dependent territories. An independent Scottish flag would be likely to be comparatively small and therefore the potential for influence within the IMO would be greatly reduced compared with the current collective influence of the UK and dependent territories.

International Fund for Agricultural Development (IFAD)	
The IFAD is an international financial institution dedicated to eradicating rural poverty in developing countries. The IFAD's goal is to empower poor rural women and men in developing countries to achieve higher incomes and improved food security.	
UK activity	Similar to the FAO. The UK provides funding to specific programmes and projects within the IFAD. Both the FAO and the IFAD are covered by the Permanent Representative in Rome.
UK contributions	All contributions are voluntary, with replenishments done every three years. The UK's last replenishment (in 2012) was for £17 million per annum.
Criteria for membership	Membership is open to any member of the UN, its Specialised Agencies or the International Atomic Energy Agency.
How does UK membership benefit Scotland?	Owing to the size of the UK's accumulated contributions to the IFAD since it was established in 1977, the UK has a quasi-permanent seat on the Executive Board and access to its sub-committees on evaluation and audit. This allows opportunities for influencing the policy direction and reform priorities of the organisation. Countries that have only recently joined the IFAD – such as Hungary – do not have the possibility to access the Board and have little opportunity for influencing.
Likely contribution of an independent Scottish state	All contributions are voluntary. As an example, Ireland's contribution is £5.3 million a year.

World Health Organization (WHO)	
The WHO is the coordinating body for health within the UN. It is responsible for providing leadership on global health matters, shaping the health research agenda and monitoring and assessing health trends.	
UK activity	The UK prepares and fields delegations for the large set-piece meetings of the WHO's governing bodies – principally the World Health Assembly, its Executive Board and regional meetings. The UK works with other Member States and the Secretariat to tackle global health problems. For example, the UK is helping to develop a global framework for monitoring non-communicable diseases; improve global preparedness for pandemics; promote vaccination; and develop norms and standards. The UK also implements the requirements of WHO legal instruments, for example the International Health Regulations and the Framework Convention on Tobacco Control.
UK contributions	£19.1 million assessed (2012). The UK is the fifth largest donor behind the US, Japan, Germany and France. The UK paid 6.605 per cent of the budget in 2011 (date of last available UN figures).
Criteria for membership	Membership of the WHO is open to all states. Members of the UN may become members of the WHO by signing or otherwise accepting the WHO constitution.
How does UK membership benefit Scotland?	The UK is a major contributor to the WHO. By being part of the UK, Scotland has a seat at the table in Executive Board and regional meetings. By being part of the UK it has input into tackling global health problems, including developing global frameworks and preparing for pandemics. The WHO is the coordinating body for health within the UN, and by default Scotland has representation through the UK being a member.
Likely contribution of an independent Scottish state	Estimated to be around £1.9 million a year.

International Telecommunication Union (ITU)	
The ITU is the UN forum through which information and communication technology (ICT) standards and issues are agreed.	
UK activity	The UK membership of the ITU organises worldwide and regional exhibitions and forums, bringing together representatives of government and the telecommunications and ICT industry to exchange ideas, knowledge and technology. It is also active in areas including broadband internet, latest-generation wireless technologies, aeronautical and maritime navigation, radio astronomy, satellite-based meteorology, fixed mobile convergence, internet access and data, voice, TV broadcasting and next-generation networks.
UK contributions	£2.1 million (2012). The UK paid 2.87 per cent of the budget in 2011 (date of last available UN figures).
Criteria for membership	Any Member State of the UN may request to become a member of the ITU by submitting an application at the next available ITU Plenipotentiary Conference.
How does UK membership benefit Scotland?	Scotland has benefited from the UK's position in the ITU by the UK securing adequate spectrum allocation for mobile telecommunication, radio and broadcasting frequencies, defence, scientific and commercial use. Through the UK's membership of the ITU, telecommunications standardisation meets the requirements for industry and users, and infrastructure is maintained so that Scotland can operate and trade (including its financial services) with any country around the world.
Likely contribution of an independent Scottish state	Assessed contributions to the ITU are very small. The amount chargeable for membership is dependent on those activities in which a Member State participates. An independent Scottish state would need to determine what it wants to do and pay accordingly.

Universal Postal Union (UPU)	
The UPU is the primary forum for cooperation between governments and postal administrations relating to the international exchange of post. It also provides technical assistance where needed as well as mediating and liaising internationally. It sets the rules for international mail exchange and makes recommendations to stimulate growth in mail, parcels and financial services.	
UK activity	The UK is represented by Royal Mail, which delivers the UK's objectives in international postal standards. Royal Mail has a dedicated team which liaises with the UPU. The UK is one of the biggest Member States in the UPU.
UK contributions	£1.4 million assessed (2012). The UK paid 6.189 per cent of the budget in 2011 (date of last available UN figures). The UK also pays £81,000 as a contribution to the running costs of the Berne-based English Language Group, which translates documents.
Criteria for membership	Any member country of the UN may become a member of the UPU.
How does UK membership benefit Scotland?	As part of the UK, Scotland has benefited from international cooperation between governments and postal administrations on the international exchange of post. The UPU also sets the rules for international mail exchange as well as recommendations on future growth.
Likely contribution of an independent Scottish state	UPU expenses are financed jointly by the member countries, through a contribution class system. On admission, new member countries are free to choose one of ten contribution classes ranging from one to 50 units. An additional contribution class of half a unit is reserved for the least developed countries. Based on a comparison with Ireland and on current pricing of membership units, an independent Scottish state would likely need to pay up to £200,000.

World Meteorological Organization (WMO)	
The WMO promotes cooperation in the establishment of networks for making meteorological, climatological, hydrological and geophysical observations, as well as the exchange, processing and standardisation of related data, and assists in technology transfer, training and research. It also fosters collaboration between the national meteorological and hydrological services of its members and furthers the application of meteorology to public weather services.	
UK activity	The UK is an active part of the WMO, leading on meteorological issues, setting best practice and developing the brief on climate change.
UK contributions	£2.9 million for 2013. The UK paid 6.50 per cent of the budget in 2011 (date of last available UN figures).
Criteria for membership	Any member of the UN maintaining its own meteorological service may join the WMO or run its own meteorological network. An independent Scottish state's membership would therefore be linked to its plans for a national meteorological service.
How does UK membership benefit Scotland?	The primary beneficiary of UK engagement with the WMO is the Met Office, which provides public weather services for the whole of the UK, including Scotland. Within the WMO, the UK has a high level of influence primarily through the Met Office being recognised as one of the leading weather and climate services in the world, and is effectively a permanent member of the WMO Executive Council (which has nine European seats). This means that the UK can exert a lot of influence in WMO policy developments, including standards and policy for exchange of meteorological data, which can be a major cost driver for a national meteorological service.
Likely contribution of an independent Scottish state	Based on Finland's and Ireland's contributions, an independent Scottish state could expect to pay just over £200,000 a year, on top of the costs of maintaining its own meteorological service.

World Intellectual Property Organization (WIPO)	
The WIPO is the UN agency dedicated to the use of intellectual property (patents, copyright, trademarks, designs, etc.) as a means of stimulating innovation and creativity. It promotes the development and use of the international intellectual property system and also works with Member States and stakeholders to improve understanding of and respect for intellectual property worldwide. The WIPO provides economic analysis and statistics, and contributes intellectual property-based solutions to help tackle global challenges.	
UK activity	The UK is a member and active participant in WIPO debates. The WIPO works on committees, all of which the UK is an active member of, including those with limited membership such as the budget committee. The Chief Executive Officer of the UK Intellectual Property Office or a Minister attends the annual General Assemblies. Competence is shared with the European Union (EU).
UK contributions	£770,000 assessed (2012). The UK paid 6.54 per cent of the budget in 2011 (date of last available UN figures). The WIPO is funded mainly by fees from applicants, not Member States. The UK also contributes some £10,000–15,000 a year to specific projects.
Criteria for membership	Membership of the WIPO is open to any state that is a member of the Paris Union, the Special Unions and Agreements established in relation to that Union and the Berne Union. Furthermore, membership is open to states that are not members of the aforementioned unions provided that: (i) it is a member of the UN, any of the Specialised Agencies brought into relationship with the UN, or the International Atomic Energy Agency, or is a party to the Statute of the International Court of Justice, or (ii) it is invited by the General Assembly to become a party.
How does UK membership benefit Scotland?	Owing to its size, the UK has major influence at the WIPO – a seat on every committee, including those that set the budget, set the agenda and affect the business-facing operations at the WIPO. Scottish businesses benefit from UK membership of the WIPO through access to its work to protect intellectual property rights.
Likely contribution of an independent Scottish state	Based on a comparison with countries of a similar size, an independent Scottish state could expect to contribute around £92,000.

Annex C: International organisations

The Commonwealth

C.1 The UK has the most extensive network of High Commissions across the membership. (Diplomatic missions between Commonwealth countries are called High Commissions, not Embassies.) London is home to the largest number of Commonwealth diplomatic missions, giving the UK considerable bilateral influence with Commonwealth Member States. Scotland already has a proud Commonwealth tradition as part of the UK – it has hosted the Commonwealth Heads of Government Meeting (Edinburgh 1997) and the Commonwealth Games (Edinburgh 1970 and 1986), and will host the Games again in 2014. Scotland competes under its own flag in the Commonwealth Games, not as part of a UK team. Scottish branches of the Commonwealth Parliamentary Association and the Royal Commonwealth Society are active, but benefit from being part of a larger and more influential UK branch. Scotland also has its own Commonwealth scholarships programme. In these ways, Scotland benefits from its own identity and activity within an influential UK; an independent Scottish state would retain its identity but lose much of its influence.

C.2 The Commonwealth uses a 'scale of contribution' formula based on the United Nation's (UN's) assessed contributions system. The UK is the largest contributor to the Commonwealth, with a scale of assessment worth 32.65 per cent of the total budget. In 2012/13, UK contributions to Commonwealth organisations amounted to approximately £40 million, which included about £16 million to the Commonwealth Secretariat. As the largest contributor and with the Commonwealth Secretariat and the majority of the pan-Commonwealth civil society, business and media organisations based in London, the UK enjoys notable influence in the organisation.

C.3 An independent Scottish state would be similar in size to New Zealand, which currently pays an assessed contribution of £446,000 a year, and a further £3.4 million in discretionary funds.

The International Monetary Fund

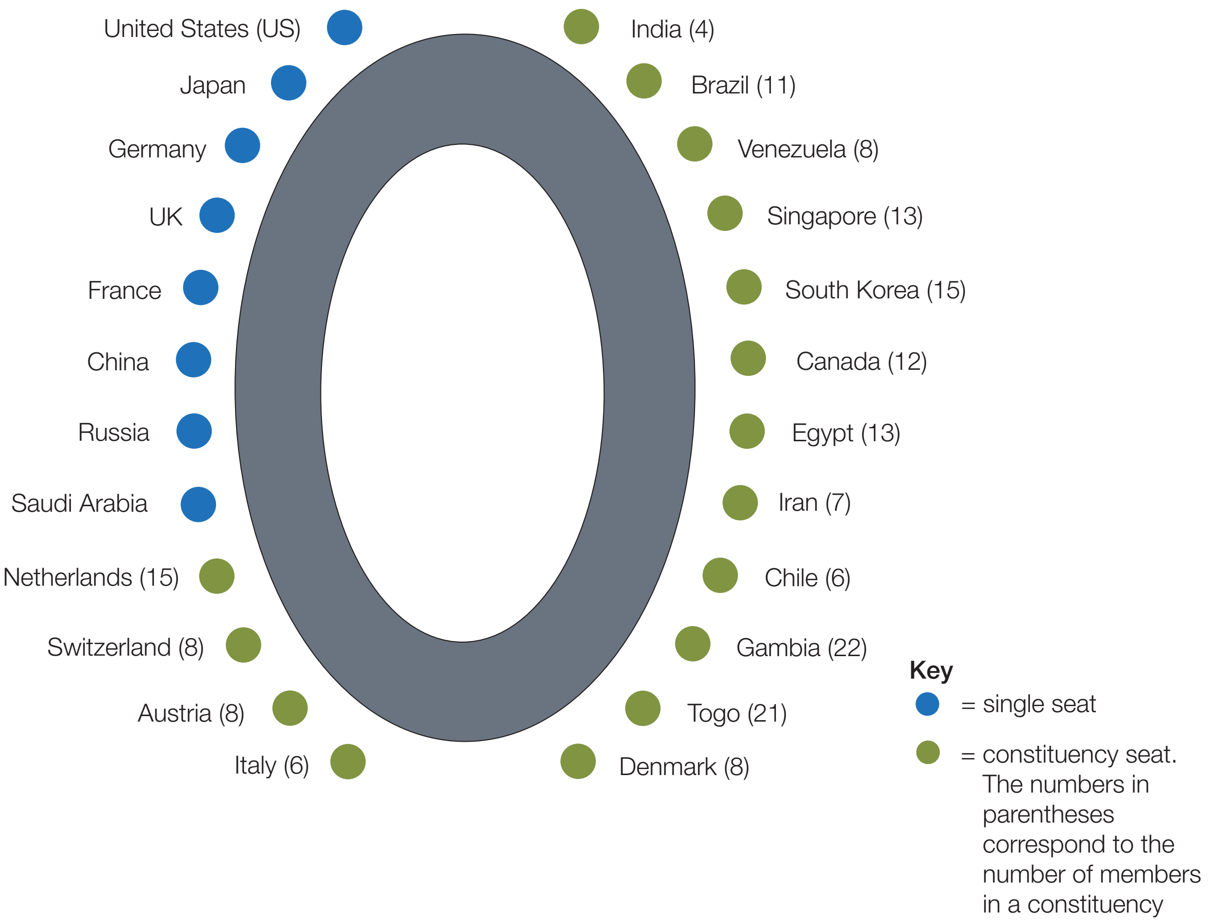
C.4 The International Monetary Fund (IMF) works to foster international monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

C.5 The IMF has 188 member countries. It is a Specialised Agency of the UN but has its own charter, governing structure and finances. Its members are represented through a quota system broadly based on their relative position in the global economy.

C.6 The Board of Governors of the IMF, on which all member countries are represented, is the highest authority governing the Fund. The Chancellor of the Exchequer is the UK's Governor. He also represents the UK at the International Monetary and Financial Committee, the 24-member ministerial committee that advises the Board of Governors and the main forum for discussing IMF policies at ministerial level. The Governor of the Bank of England is the UK's Alternate Governor of the IMF. The IMF's day-to-day work is conducted by its Executive Board, which comprises 24 Executive Directors representing all 188 IMF member countries. The UK is a founding member of the IMF and one of the largest contributors, and has its own Executive Director and single seat on the Executive Board.

C.7 In total, eight members hold a single seat on the Executive Board, with the remaining members being represented by Executive Directors representing a constituency of members. The UK's quota share is 4.51 per cent, equivalent to 10,738.4 million IMF Special Drawing Rights (SDRs).[1] Scotland is therefore represented by the UK, both by UK representation on the IMF Executive Board and by the Chancellor of the Exchequer on the Board of Governors. Figure C.1 shows the make-up of the IMF Executive Board.

Figure C.1: IMF Board composition



[1] The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies. Under its Articles of Agreement, the IMF may allocate SDRs to member countries in proportion to their IMF quotas.

C.8 In case of a vote in favour of independence, an independent Scottish state would become a non-member country and would be required to apply to become a member of the IMF. It would need to submit an application, which would be considered by a committee composed of IMF Executive Directors. Proposals would then be submitted to the IMF Board, and then on to the Board of Governors, with recommendations in the form of a Membership Resolution. These recommendations would cover the amount of quota in the IMF, the form of payment of the subscription, and other terms and conditions of membership. If the Board of Governors adopted an independent Scottish state's Membership Resolution, it could become a member once it had taken the legal steps required to enable it to sign the IMF's Articles of Agreement, and to fulfil the obligations of IMF membership. An independent Scottish state would then be required to appoint a Governor and an Alternate Governor (usually the Finance Minister and Central Bank Governor).

C.9 An independent Scottish state would not be represented as a single seat, and, as with other small states, would be required to join a constituency. One option might be for the rest of the UK and Scotland to form a constituency. Alternatively, an independent Scottish state could join one of the other constituencies, most likely one representing other EU countries.

C.10 If an independent Scottish state was a member of the IMF in its own right, it would be represented at the IMF Executive Board by its constituency Executive Director. As with other IMF members, being a member would require an independent Scottish state to provide data to the IMF, to undertake regular Article IV assessments, to meet its obligations under the IMF Articles of Agreement and to develop a position on the range of issues discussed by the IMF Board.

C.11 An independent Scottish state would require the necessary administrative infrastructure in order to deliver its obligations to the IMF; for example, in order to buy or sell SDRs. IMF members often need to buy SDRs to discharge obligations to the IMF, or they may wish to sell SDRs in order to adjust the composition of their reserves. As with all existing members of the IMF, an independent Scottish state would also be required to contribute from its reserves, in line with its IMF quota share. Based on its Gross Domestic Product (GDP) and other factors, if it is assumed that an independent Scottish state's quota share is very roughly similar to Finland's, its quota share would be around SDR 1.2 billion (SDR 2.4 billion after implementation of the IMF quota reforms agreed in 2010).

C.12 There is a recent precedent for a region of an existing member of the IMF to declare independence and apply to become a member of the IMF in its own right – South Sudan. In this case, Sudan was judged to be the 'continuing country' and retained all its assets in, and liabilities to, the IMF. South Sudan became a non-member country and applied for membership.

The World Bank

C.13 The World Bank works to deliver increased prosperity and poverty reduction in low income and developing countries around the world. The World Bank also contributes to many of the norms and standards for trade, investment climate and public financial management. The World Bank is core to delivering UK international development objectives and contributes to UK prosperity by increasing global economic development.

C.14 The World Bank overall has 188 member countries. It is a Specialised Agency of the UN but has its own charter, governing structure and finances. Its members are represented through a quota system broadly based on their relative position in the global economy and the extent to which they either contribute or borrow from the World Bank.

C.15 The Board of Governors of the World Bank, on which all member countries are represented, is the highest authority governing the organisation. The UK Secretary of State for International Development is the UK's Governor and represents the UK at the Development Committee, the main committee of the Board of Governors and the main forum for discussing World Bank policies at ministerial level. The Chancellor is the UK's Alternate Governor of the World Bank.

C.16 The World Bank's day-to-day work is conducted by the Bank's Executive Board, which comprises 25 Executive Directors and the World Bank Group President and represents all World Bank member countries. The UK has its own Executive Director and holds a single seat on the Executive Board. Five Executive Directors are appointed by the members with the five largest numbers of shares (currently the US, Japan, Germany, France and the UK). China, the Russian Federation and Saudi Arabia each elect their own Executive Director. The other Executive Directors are elected by the other members. The voting power distribution differs from agency to agency within the World Bank Group, but at the main World Bank Board at which most decisions are taken, the UK has 4.23 per cent of the total votes.

C.17 In the case of a vote in favour of independence, an independent Scottish state would become a non-member country and would be required to apply to become a member of the IMF first and then a member of the World Bank. Its application would then be submitted to the World Bank Board, and then on to the Board of Governors, with recommendations in the form of a Membership Resolution. If the Board of Governors adopted the Membership Resolution, an independent Scottish state could become a member once it had taken the legal steps required to enable it to sign the World Bank Articles of Agreement, and to fulfil other requirements. An independent Scottish state would then be required to appoint a Governor and an Alternate Governor (usually the Finance Minister or Development Minister).

C.18 There is a recent precedent for a region of an existing member of the World Bank to declare independence and apply to become a member of the World Bank in its own right – South Sudan. In this case, Sudan was judged to be the 'continuing country' and retained all its assets in, and liabilities to, the World Bank. South Sudan became a non-member country and applied for membership.

C.19 An independent Scottish state would unlikely be represented as a single seat, and would be required to join a constituency. One option might be for the rest of the UK and an independent Scottish state to form a constituency. Alternatively, an independent Scottish state could join one of the other constituencies, most likely that representing other western European countries.

C.20 If an independent Scottish state was a member of the World Bank in its own right, it would be represented at the Bank's Executive Board by its constituency Executive Director. As with other World Bank members, being a member would require an independent Scottish state to develop a position on the range of issues discussed by the World Bank Board.

C.21 As with all existing members of the World Bank, an independent Scottish state would be required to contribute to the purchase of shares in line with its quota share. Based on its GDP and other factors, if it is assumed that an independent Scottish state's quota share would be very roughly similar to Finland's, an independent Scottish state's quota share would be 0.55 per cent. However, this may change, as the World Bank is due to agree reforms to its voting rights and shares in 2015.

C.22 If an independent Scottish state became a member, it would have the opportunity to shape the World Bank's investments and provide input into international development policy at the highest levels in the World Bank. However, it would also need to develop the policy making capacity to be able to do so. This capability would take time to develop.

The Council of Europe

C.23 The Council of Europe (CoE) was established in 1949 as a pan-European international organisation to protect and promote common standards of human rights, democracy and the rule of law in Europe. The UK was a founding member. The CoE is the most developed regional system of human rights protection worldwide and offers major opportunities to further the UK's human rights objectives, as well as promoting the rule of law and democracy, throughout wider Europe and beyond. Membership expanded rapidly in the 1990s; there are now 47 Member States, with all European countries except Belarus, Kazakhstan and Kosovo represented; the Holy See is an observer. The CoE Member States agree and set standards on issues including human rights, terrorism, crime, money laundering and trafficking, by negotiating and ratifying Conventions. The UK is an active and influential member of the CoE, partly because of its status as one of five major contributors ('*Grands Payeurs*') to the budget.

C.24 The UK is a major player within the CoE, and Scotland benefits through that. While a certain degree of influence can also be achieved by active, well-informed and well-respected diplomats and Ambassadors, smaller Member States, of which an independent Scottish state might be one, do not carry the same influence as the *Grand Payeurs*.

C.25 The CoE uses a formula based on GDP and population size to work out contributions to the budget. According to the Scottish Government website, Scotland's GDP for 2011 was £150 billion, which includes a geographical share of North Sea oil and gas.[2] The population and GDP of Scotland are very roughly similar to those of Finland, which pays around €3 million per annum to the non-discretionary CoE budgets. The UK's contribution to the non-discretionary CoE budgets in 2012 was nearly €31 million.

C.26 The UK held the Chairmanship of the CoE's Committee of Ministers (its main decision making body, representing all members) from November 2011 to May 2012. Its main achievement during the Chairmanship was the adoption of the Brighton Declaration on reform of the European Court of Human Rights. The agreed reforms will help to ensure that the Court focuses on the cases that really require its attention and deals with its large backlog of cases (over 140,000), and will help to improve the quality of its judges and judgments. A reformed European Court of Human Rights is in the UK's (and therefore Scotland's) national interest. In an increasingly networked world, UK security and prosperity depend to a large extent on stability and adherence to human rights across the European continent: this needs an effectively functioning Court. The UK is heavily involved in ensuring that the reforms are implemented swiftly. Progress has already been made in clearing the backlog of inadmissible cases before the Court, and Protocol 15, which will introduce the required amendments to the Convention, was opened for signature in June 2013.

2 This is based on the assumption that an independent Scottish state would receive a geographical share of North Sea oil and gas, as estimated by the Scottish Government in *Scottish National Accounts*, Quarterly National Accounts table, February 2013, www.scotland.gov.uk/Topics/Statistics/Browse/Economy/SNAP/expstats/aggregates/SNAP2012Q3

The Organization for Security and Co-operation in Europe

C.27 The Organization for Security and Co-operation in Europe (OSCE) is the world's largest regional security organisation, comprising 56 participating states including the US, Canada, Russia, Western Balkans, South Caucasus and Central Asia. The UK is one of five major contributors to the OSCE annual budget of around €150 million (UK contribution approximately €15 million). Membership of the OSCE offers strategic and practical benefits to the UK in support of foreign policy objectives, at relatively low cost.

C.28 Participating states have adopted a series of political (not legally binding) commitments and can be held to account if found to be in breach of these. These commitments are more far-reaching than in any other international framework, and represent an important tool in support of the UK's international human rights and democracy objectives. The OSCE is the home of a valued framework of confidence and security building measures (CSBMs), including the Vienna Document 2011. It is also the forum for complementary security activity on conventional arms control/CSBMs, namely the Conventional and Armed Forces in Europe (CFE) Treaty and Open Skies Treaty. The OSCE also has a leading or supporting role in useful operational work throughout its area: observing elections, defusing minority-related conflicts, responding to crises, dealing with trans-national threats (e.g. cyber security), building capacity and bolstering civil society.

C.29 It is assumed that an independent Scottish state would be part of the Vienna Document zone of application for confidence and security building measures. An independent Scottish state would then need to decide on whether to apply to join other associated regimes, such as the Open Skies Treaty or a future conventional arms control regime. Although the CFE Treaty does not have an accession clause, accession would still be possible on the basis of a supplementary agreement or protocol.

The European Investment Bank

C.30 The European Investment Bank (EIB) is the EU's long-term lending institution and lends to projects that further the EU's policy goals. All Member States of the EU are members of the EIB with a shareholding, Governor and representative on the Board of Directors. The UK is currently represented by the Chancellor of the Exchequer on the Board of Governors and by HM Treasury's Europe Director on the Board of Directors. Scotland is covered by the UK's membership. The UK is the joint largest shareholder, along with France, Germany and Italy (which each have a shareholding of 16 per cent).

C.31 Although the EIB lends to projects outside the EU, in support of EU external policy objectives, around 90 per cent of EIB lending is to EU countries. As part of the UK, Scotland is eligible for this EU lending, and benefits significantly from it. Between 2008 and 2012 finance contracts worth €1.4 billion were signed in Scotland.[3] The EIB's investments in Scotland have contributed to, among other projects, the financing of six onshore wind farms, the completion of the M80 motorway, the construction and refurbishment of over 40 schools, investment in social housing and the construction of new facilities at the University of Strathclyde.

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3 *The European Investment Bank Statistical Report*, European Investment Bank, 2012

C.32 Unless and until an independent Scottish state became a Member State of the EU it could not be a member of the EIB. Article 308 of the Treaty on the Functioning of the European Union states that "the members of the European Investment Bank shall be the Member States" of the EU. By virtue of having to apply to join the EU as a new Member State, for the period of application, an independent Scottish state may be ineligible for the lending the EIB undertakes inside the EU. An independent Scottish state could become eligible for the lending the EIB undertakes outside the EU but this is by no means certain and would likely require the approval of the EIB's Board of Governors.

C.33 There is no precedent at the EIB for the treatment of an independent Scottish state. In terms of an independent Scottish state gaining a capital share in the EIB, there would appear to be two options: either it would have to pay its own capital share into the Bank; or, based on negotiations with the rest of the UK, it could be granted a portion of the UK's shareholding.

C.34 The size of an independent Scottish state's shareholding would likely be based on Scottish GDP at market prices as a share of total EU GDP;[4] it is likely therefore that its shareholding would be significantly smaller than the UK's. Around 9 per cent of Member States' capital subscription is paid into the EIB; the rest is referred to as callable capital, and can be called upon in the event that the Bank is unable to meet its obligations. The UK capital subscription to the EIB consists of €3.5 billion of paid-in capital and €35.7 billion of callable capital. So Scotland would take on a contingent liability and, depending on which of the options above applies, may be expected to contribute paid-in capital.

C.35 An independent Scottish state would gain its own Governor and Director. However, since voting power on the EIB Board of Directors is dictated by their shareholding size, an independent Scottish state's influence on the Board of Directors would be reduced.

The European Bank for Reconstruction and Development

C.36 As a member of the European Bank for Reconstruction and Development (EBRD), the UK has a shareholding, Governor and representative on the Board of Directors of the Bank. Scotland is covered by the UK's membership. The UK – along with France, Germany, Italy and Japan – is the joint second largest shareholder, with a shareholding of around 8 per cent.[5] The EBRD is an effective, well-respected institution, which has played an important role, since its establishment in 1991, in supporting the transition to democratic market economies of its countries of operation in Central and Eastern Europe and countries of the former Soviet Union, and is now supporting the transition of a number of countries in the Southern and Eastern Mediterranean region. The UK's influence at the EBRD contributes to achieving its foreign policy goals.

C.37 The only criterion required for a country to join the EBRD[6] is that it must be a member of the IMF. The EBRD has dealt with countries gaining independence in different ways depending on the political context. In the case of the dissolution of Czechoslovakia the capital share of the former state was split between the current Czech Republic and the Slovak Republic. However in the case of Montenegro, Serbia's shareholding remained unchanged and Montenegro purchased a shareholding in the Bank.

4 There have been derogations from this formula in the past but none since 1981.

5 *EBRD Financial Report*, European Bank for Reconstruction and Development, 2012

6 Agreement Establishing the European Bank for Reconstruction and Development

C.38 It is clear that as a member of the EBRD, an independent Scottish state would take on a contingent liability in the form of callable capital, that its shareholding would be considerably smaller than the UK's and, depending on which of the options above applied, that it may be expected to contribute paid-in capital. The UK's capital subscription to the EBRD consists of €2 billion of callable capital and €0.5 billion of paid-in capital. An independent Scottish state's influence would likely be significantly reduced, as voting power on both the Board of Directors and the Board of Governors is proportionate to shareholding size. The arrangements for Board representation are complex and open to potential change, but under any circumstances, it is most unlikely that an independent Scottish state would have its own exclusive Director. It would join others in a multi-country constituency where it is most likely that it would be represented by a Director from an existing member.

The Financial Action Task Force

C.39 An important part of dealing with the threat of international terrorism is effective measures for tackling money laundering and terrorism financing. The UK is a founding member of the Financial Action Task Force (FATF), the body that sets the global standards in these areas, including those for financial institutions on customer due diligence requirements, record keeping and supervision.[7]

C.40 Countries seek membership to demonstrate commitment to robust anti-money laundering and counter-terrorism financing regimes, to play a part in setting FATF standards, and to take part in the mutual evaluation process which assesses jurisdictions' compliance with those standards. As such, an independent Scottish state may still want to be a part of FATF. However, there is currently a moratorium on membership. FATF has set up a working group to consider the question of whether FATF should expand, and if so on what grounds. It is therefore not yet possible to say whether an independent Scottish state would meet the admission criteria, as these are yet to be agreed by FATF.

C.41 Membership of a FATF-style regional body such as MONEYVAL would present an alternative option if an independent Scottish state failed to meet the admission criteria for FATF, or if FATF chose not to expand at a time when an independent Scottish state was seeking membership.[8]

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[7] FATF was founded by the G7 in 1989. More information can be found on the FATF website: www.fatf-gafi.org/pages/aboutus/historyofthefatf/

[8] MONEYVAL – the Committee of Experts on the Evaluation of Anti-Money Laundering Measures – is the regional body for the Western Europe region.

Annex D:
Analysis of countries of a similar size to an independent Scottish state

Country	Population (millions)	Defence spending	Gross Domestic Product (GDP)	Diplomatic network	Overseas trade and investment	Official Development Assistance (ODA)	International organisations
United Kingdom (UK)	62.7	£38 billion – 2.5% of GDP. Second highest level of defence spending in NATO. Fourth largest defence budget globally	£1,535 billion	270 offices in 170 countries and over 14,000 staff, and an annual budget of £1.6 billion	162 offices in 96 countries	In 2012 the UK provided £8.6 billion of ODA – ranking third in the world (behind the US and Germany) for volume of ODA provided. 28 focus countries	Extensive and includes: EU, UN, NATO, G7, G8, G20, Commonwealth, UNSC, OSCE, CoE, FATF, IMF, EIB, EBRD, UN Specialised Agencies
Scotland	5.25[1]	The Scottish Government proposes a defence and security budget of £2.5 billion, which is under 7% of UK spend on defence and security, and ignores any start-up costs	£150 billion[2]	Represented through the UK's 270 offices in 170 countries and over 14,000 staff	Represented through the UKTI's 169 offices in more than 100 countries, 11 of which host officials from the Scottish Government or Scottish Development International. Scottish Development International has trade/investment offices in 16 countries and territories outside the UK	In addition to contributing to the UK programme Scotland has a Scottish programme worth £9 million a year focused on Malawi, Rwanda, Tanzania and Zambia. Additional £3 million until 2015 for focus countries for water resource management projects. The Scottish Government states it would allocate 0.7% of GNI to ODA	Currently represented through the UK's extensive membership of international organisations

Country	Population (millions)	Defence spending	Gross Domestic Product (GDP)	Diplomatic network	Overseas trade and investment	Official Development Assistance (ODA)	International organisations
Denmark	5.6	£2.8 billion – 1.4% of GDP. Full and active member of NATO. Does not participate in EU CSDP defence activities. Does not deploy forces on EU military operations or participate in development of EU military capabilities. Provides military personnel to NATO and UN-led deployments. Current operations include stabilisation operations in Afghanistan and Kosovo. Focus on being able to contribute to multi-national operations, as well as domestic military tasks, including search and rescue, counter-privacy and airspace defence and surveillance. Retains conscription through four-month military service. Armed forces figure includes 1,750 conscripts	£207.8 billion	78 Embassies worldwide, 28 Consulates-General, 424 Honorary Consuls, seven missions at international organisations, employing 2,700 people[3]	Denmark's overseas trade and investment promotion is handled by two separate organisations: the Danish Trade Council and Invest in Denmark. The Trade Council employs approximately 300 staff, working in about 90 Embassies, Consulates-General and Trade Commissions around the world.[4] Invest in Denmark is represented in 14 locations outside Denmark: Silicon Valley, Toronto, New York, London, Paris, Munich, Istanbul, Bangalore, Beijing, Shanghai, Seoul, Taipei, Singapore and Tokyo. The Trade Council is also responsible for Trade Policy[5]	0.85% of GNI. Denmark coordinates with other donors, for example with the UK in East Africa on Somalia and in regional capacity-building work	Joined the then European Community in 1973, and joined NATO in 1949. It is a member of the CoE, UN, WTO and OSCE, as well as the Nordic Council and Arctic Council
Norway	5.0	£4.4 billion – 1.6% of GDP. Full and active member of NATO. Provides military personnel to NATO and UN-led deployments. Current operations include stabilisation operations in Afghanistan and Kosovo. Focus on territorial defence, particularly in the High North. Importance placed on alliances and multi-national operations. Retains policy of partial conscription. Armed forces figure includes 7,700 conscripts	£306.4 billion	Embassies in 86 countries, more than 100 missions in total. Annual budget of NOK 35 billion (£3.8 billion) of which £30 billion earmarked for development assistance[6]	Norway's UKTI equivalent is Innovation Norway, a state-owned company started in 2004 with offices in 30 countries with over 700 employees[7]	0.93% of its GNI (£30 billion). Close to half of Norway's international development budget is channelled through multilateral organisations, and Norway works actively with other donors, e.g. through its Climate and Forest Initiative	European Economic Area, Schengen Convention, NATO, UN, WTO, IMF, EBRD, CoE, Arctic Council, OSCE

Country	Population (millions)	Defence spending	Gross Domestic Product (GDP)	Diplomatic network	Overseas trade and investment	Official Development Assistance (ODA)	International organisations
Slovakia	5.4	£0.6 billion – 1.1% of GDP. Full and active member of NATO. Provides military personnel to NATO, EU and UN-led deployments. Focus on contributions to international operations	£60 billion	Embassies in 68 countries, nine Consulate-Generals, eight Slovak institutes, and representation at six permanent missions. A number of Slovak diplomats have careers in international organisations and the EU. The Slovak Foreign Affairs budget in 2012 was just over €127 million with a predicted cut to €119 million for 2013[8]	Slovakia recorded a record trade surplus €3.6 billion in 2012, with exports reaching €62.7 billion and imports €59.1 billion. Slovakia has reported a cumulative annual surplus since 2009. This is a result not only of Slovakia's export performance but also of decreasing imports due to weak domestic demand and slowing industrial production. Germany is by far the most important economic and trade partner for Slovakia, with combined direct and indirect exports amounting to around 50% of GDP. The Economy Ministry is currently in the process of preparing a new Export Strategy for Slovakia for 2014–20 – its priority is to reduce Slovakia's dependence on the EU (destination of 84% of Slovakia's exports in 2012) and develop an exports structure outside the EU (Russia, Asia, etc.)[9]	Outward foreign direct investment position of Slovakia in 2011 was €2.4 billion[10]	Member of the EU, CoE, NATO, OSCE, IAEA, IEA, WTO, OECD, IMF, EBRD. UN organisations in Slovakia – Slovak commission for UNESCO, UNICEF, UN High Commissioner for Refugees, UNFPA (population fund)

Country	Population (millions)	Defence spending	Gross Domestic Product (GDP)	Diplomatic network	Overseas trade and investment	Official Development Assistance (ODA)	International organisations
Finland	5.4	£2.3 billion – 15% of GDP. Historically a neutral state. Contributes to EU CSDP activities, including participating in EU battlegroups. Russia is a key factor in security environment and defence planning. Provides military personnel to NATO, EU and UN-led deployments. Current operations include stabilisation operations in Afghanistan, Bosnia and Kosovo. Focus on acting as a guarantor of national sovereignty. Improving ability to participate in multi-national peacekeeping and peace enforcement. Retains conscription, reflecting the importance of a broad section of society being able to support territorial defence. Armed forces figure includes 13,650 conscripts	£164.5 billion	93 posts (70 of which are Embassies) are being reformed, with the closure of nine Embassies (to save €13 million), which may rise to 15 in 2013. 2013 draft budget is €201.8 million for this network alone, rising to €1.304 billion when ODA is factored in. Finland has 16 Cultural and Academic Institutes (the equivalent of the British Council) around the world[11]	Team Finland (officially launched in 2012) is the main actor supporting Finland's external economic relations, internationalisation of Finnish businesses (especially small and medium-sized enterprises), the country's brand and inward investments. It is an umbrella organisation bringing together existing key authorities and organisations, operating under governmental guidance. More than 70 teams have been set up in different countries[12]	0.53% of its GNI. Finland is committed to reaching the target level of 0.7% ODA/GNI by 2015 and is one of the few donor countries that have been able to increase commitments during the past years. However, the financial crisis has forced the Government to cut back on further increases	Member of almost all major international organisations, with Permanent Representations in the EU, CoE, OSCE, OECD, UN, WTO, UNESCO, IAEA and the Western European Union. Although not a NATO member, Finland is a keen participant in the Partnership for Peace Programme and is a long-standing contributor to the International Security Assistance Force in Afghanistan

Country	Population (millions)	Defence spending	Gross Domestic Product (GDP)	Diplomatic network	Overseas trade and investment	Official Development Assistance (ODA)	International organisations
Ireland	4.6	£0.7 billion – 0.6% of GDP. Historically a neutral state. Contributes to CSDP and UN peacekeeping, particularly drawing on experience of countering domestic terrorism and paramilitary activity to provide explosive device expertise. Provides military personnel to NATO, EU and UN-led deployments. Current operations include stabilisation operations in Afghanistan, Bosnia and Kosovo. Primary task is to defend the state against armed aggression, while there also remains emphasis on peace support, crisis management and humanitarian operations	£138 billion	1,485 staff (300 of which are locally engaged) in 73 missions, 55 Embassies, eight multi-cultural missions, eight Consulates-General, 24 Honorary Consulates-General and 62 Honorary Consulates. The annual cost of the diplomatic service is around €90 million[13]	Ireland has separate trade development and inward investment agencies – Enterprise Ireland and the IDA Ireland respectively. Enterprise Ireland, operating out of 31 offices covering 60 markets, provides a range of advice and grant support to its client companies. IDA Ireland operates out of its main Irish offices and 12 other overseas offices. In 2010, the Republic of Ireland's top nine trading partners were in the EU or US. China, its tenth largest trading partner, accounted for just 3% of Irish trade[14]	0.52% of GNI. Despite the Irish Government's commitment to the target to increase this to 0.7% by 2015, the current Irish overseas aid budget – US$914 million in 2011 – has been cut by over 30% since 2008. The main focus of Irish overseas aid funding and field implementation is Africa, with Uganda the top recipient of Irish ODA	Member of most UN bodies and Specialised Agencies. Despite implementing a programme of severe fiscal readjustment, the Irish Government has been determined to demonstrate that Ireland is still willing and able to take on major international responsibilities, including the Chairmanship of the OSCE in 2012 and the Presidency of the EU in 2013

Country	Population (millions)	Defence spending	Gross Domestic Product (GDP)	Diplomatic network	Overseas trade and investment	Official Development Assistance (ODA)	International organisations
Croatia	4.4	£0.6 billion – 1.7% of GDP. Full and active member of NATO. Provides military personnel to NATO and UN-led deployments. Current operations include stabilisation operations in Afghanistan and Kosovo. Focus on ensuring national sovereignty, as well as defence of allies and participation in crisis response operations. Armed forces figure includes 250 naval conscripts	£38.5 billion	Croatia has 51 Embassies around the world. The annual budget of the Croatian Ministry of Foreign Affairs is 710 million kuna. This is expected to fall in 2014 to 609 million kuna[15]	Croatia's trade balance with the EU totalled €15.486 billion in 2012 of a total €25.980 billion trade with the world. The EU accounted for 55.9% of Croatia's total exports and 61.8% per cent of total imports. Croatia's major trading partners include the EU, China, Russia, the Western Balkans, Switzerland and the US. 23.9% of Croatia's exports to the EU are machinery and transport equipment.[16] Croatia does not have a UKTI equivalent: its closest equivalent would be the Croatian Agency for Investments and Competitiveness, the main task of which is to promote Croatia as a desirable investment destination[17]	While small, Croatia plays an active role at the international level, recently supporting humanitarian projects in Syria, Libya and Afghanistan. Croatia was until recently an ODA-income country. With EU accession, Croatia has had to increase the amount of its budget given to ODA to meet EU standards. 4 million kuna of the total Croatian Ministry of Foreign Affairs budget of 710 million kuna goes to humanitarian aid abroad	EU, UN, OSCE, CoE, Regional Cooperation Council, IMF, World Bank, WTO, EBRD, Partnership for Peace, NATO

Notes:

Abbreviations: CoE, Council of Europe; CSDP, Common Security and Defence Policy; EBRD, European Bank for Reconstruction and Development; EIB, European Investment Bank; EU, European Union; FATF, Financial Action Task Force; GNI, Gross National Income; IAEA, International Atomic Energy Agency; IMF, International Monetary Fund; NATO, North Atlantic Treaty Organization; OECD, Organisation for Economic Co-operation and Development; OSCE, Organization for Security and Co-operation in Europe; UKTI, UK Trade & Investment; UN, United Nations; UNESCO, United Nations Educational, Scientific and Cultural Organization; UNSC, United Nations Security Council; US, United States; WTO, World Trade Organization.

All population figures come from the 2011 statistics at IMF – World Economic Outlook Database, April 2013.

All figures for defence expenditure come from the SIPRI Military Expenditure Database, www.sipri.org/research/armaments/milex/milex_database, conversion rate: Bank of England annual average spot exchange rate 2012, US dollar into sterling, 0.631.

All figures for armed forces (active armed forces, not including reserves) come from *The Military Balance 2012*, International Institute of Strategic Studies, 2012. Rounded to nearest 100.

All figures for Gross Domestic Product come from the 2011 statistics at IMF – World Economic Outlook Database, April 2013, conversion rate: Bank of England annual average spot exchange rate 2011, US dollar into sterling, 0.624.

All figures for Official Development Assistance come from the Organisation for Economic Co-operation and Development at www.oecd.org/dac/stats/aidtopoorcountriesslipsfurtherasgovernmentstightenbudgets.htm.

Footnotes:

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