

## The Future of Scotland: Remarks by Ambassador Paul Johnston to the British and Commonwealth Association, 23 April 2014

### Introduction

- Thank you for giving me the opportunity to share my views on the future of Scotland, with the upcoming referendum this fall.
- In 2012 the date was set for the Scottish referendum on Independence. Today I will try to provide some context around the referendum, specifically, the considerations and likely implications of a vote for independence for both Scots and the wider UK. I will be happy to take questions at the end of my speech.
- September the 18<sup>th</sup> this year, Scots will be asked the question: “Should Scotland be an independent country? The date was set as a consequence of both the election success of the Scottish National Party in 2011, when they won a majority in the Scottish Parliament, and the Edinburgh Agreement concluded between the UK government and the Scottish Government.
- David Cameron recently said that when it comes to the future of Scotland, “Centuries of history hang in the balance”. And it is true. The outcome of the referendum will not just affect the UK, but will reverberate throughout the EU, Commonwealth and the world.

### Why is the referendum happening?

#### *Historical background*

- Following the Scottish Independence Wars of the 13<sup>th</sup> and 14<sup>th</sup> century when Scotland fought against the English, Scotland became an independent country and remained so until 1707. In fact, 2014 marks the 700<sup>th</sup> anniversary of the Battle of Bannockburn (a defining battle in the independence wars) when Robert the Bruce routed the more numerous forces of King Edward II.
- The crowns of England and Scotland were joined in 1603 and in 1707, separate parliaments in London and Edinburgh voted for merger, and the Acts of Union were signed.
- The Union was not uncontroversial and was met with opposition, most notably from the Jacobite rebellion. But the union prevailed into the 20<sup>th</sup> century.
- Things started to change around 50 years ago. The Scottish National Party (SNP) which was founded in 1934 won around 40% of the vote for local council elections in Scotland in the 1960s. The arrival of North Sea Oil and British entry into the EC raised the issue further and a referendum was held on devolution in 1979, but due to turnout (less than 40% of the electorate voted), the question of devolution was not did not pass. The party lost popularity and activeness as a result.

- Support for devolution and independence grew in the 1980s.
- When Labour gained power in 1997, the question of devolution was brought back on to the agenda and through the first Scottish Act, the Scottish Parliament was established in 1999.
- The SNP won an outright majority in the Scottish Parliament in 2011, thus giving them the power to call for a referendum on independence.

### *Edinburgh Agreement*

- On October 15, 2012, the UK Government and the Scottish Government agreed to hold a referendum on independence for Scotland. The two governments agreed to cooperate to ensure that a referendum on independence would be a fair test and decisive expression of the views of the people in Scotland and a result that everyone would respect.

### *Who can vote?*

- In the Edinburgh agreement, it was agreed who was going to be allowed to vote in the referendum. Emanating from the Scottish parliamentary Franchise (those that can vote in Scottish Parliamentary and local government elections), those who are allowed to vote in the referendum are; all citizens of the UK, qualifying Commonwealth citizens<sup>1</sup> and citizens of the European Union **who are resident in Scotland**.
- That means that basically everyone **aged 16 and over** and lives in Scotland gets a direct say on Scotland's future. This equates into roughly 4 million people are allowed to vote on September 18. It also means that over 800,000 people born in Scotland, now living in other parts of the UK, are *not* allowed to vote and that 400,000 people born in other parts of the UK but now living in Scotland *are* allowed to vote in the election.

---

<sup>1</sup> Qualifying Commonwealth citizens resident in Scotland. This means Commonwealth citizens who either have leave to remain in the UK or do not require such leave, and are resident in Scotland.

## **The Scottish Constitution today**

### *Scottish Constitution today*

- Scotland has always maintained its own distinctive identity, legal and education systems, and other aspects of civic life, and since the 1998 Scotland Act, which established the Scottish parliament and devolved significant powers, political decision making on key issues has been brought right to the Scottish people.
- Today the Scottish Parliament has responsibility for everything that is not explicitly 'reserved' to the UK Parliament in Westminster. The Scottish Parliament is in charge of, for example, the National Health Service (NHS), for civil and criminal law, the justice system with police and prisons, for local government, housing, and infrastructure. The financial powers invested in them are quite impressive as well. For instance, they have the power to set a Scottish income tax rate and introduce new taxes.
- Around two thirds of public spending in Scotland is controlled by the Scottish parliament and the Scottish government.
- HMG contends that devolution offers the people of Scotland the best of two worlds. i) Political decisions that affect people in their daily lives, like health services, housing, education, policing (and many more) are decided by the Scottish Parliament and its government. BUT ii) crucially, however, the downsides of being a small state in this world, which in recent months has shown itself at its worst, are avoided.
- Devolution has certainly evolved quite some bit over the years, but still the core principle of being together and part of something larger, the United Kingdom, has not changed.

## **What a 'YES' vote for Scottish independence would mean**

- In the event of a majority of the Scottish people voting for independence, Scotland would depart from the United Kingdom and become an independent state. The UK and Scotland would then naturally need to negotiate the terms surrounding the many issues a departure would mean. No negotiations can be entered into before the referendum has taken place. An independent Scottish state would come into being on 24 March 2016, ironically the anniversary of the Union of the Crowns in 1603 and of the Acts of Union in 1707.

## **The implications of Scottish Independence**

- There are many factors that contribute to the discussion of whether Scotland should separate from the UK. Those that have been most prominent in the debate, and that are considered by the UK government to be of greatest importance include:

- If the Scottish people would vote for independence, Scotland would depart from the United Kingdom and become an independent state. The UK, with England, Wales and Northern Ireland, would remain the United Kingdom. Scotland would be Scotland. In the event of Scottish independence, The rest of the UK would retain 92%<sup>2</sup> of the population and 68% of the territory.
- In that case, the UK and Scotland would need to negotiate over the terms surrounding the many issues a departure would mean, eg joint citizenship. This takes time.
- Looking at the dissolution of Czechoslovakia in the early 1990s, it required 31 overarching treaties and 2000 sub-agreements and some issues took seven years to complete.

### *Security and Defence*

- When it comes to Security and Defence, the first duty of any state is to provide its citizens with protection against foreign and domestic threats.
- The UK has an extensive security and defence establishment, from which the UK's citizens benefit from every day. If the Scottish people would vote for independence, Scotland would need to create their own defence forces and security establishment.
- The expertise and various capabilities of the security services have been built up over centuries (in various formats). Especially important are the relationships and cooperation agreements with other countries' security services, which make up the backbone of the intelligence community.
- The UK has over 200 partner agencies around the world that cooperate to ensure the safety of its citizens and the integrity of their nations.
- It would be complex and sensitive to unravel the network of defence bases and commitments that straddle the whole of the UK.
- In recent years, for example, one of the potential threats to UK airspace has come from the north of Scotland, from Russia. Russia has been flying military aircraft in the area. Typhoon fighter squadrons based at RAF Leuchars play a key role in countering and managing this threat.
- Defence forces, specifically naval power, are relevant to UK prosperity as well as to security. 95% of the UK's international trade is transported by sea and every year about 500 million tonnes of freight pass through our ports. World-wide, 28,000 ships pass annually through the Indian Ocean, Gulf of Aden and Arabian Sea.
- The UK armed forces do a vital job in protecting our business connections and travellers around the globe every day and night.

### **Economics**

---

<sup>2</sup> UK today 63 million. Scotland 5.3 million.

- Perhaps the central issue is the Scottish Economy. It has been widely discussed and is at the heart of both camps' arguments.
- It is true that the Scottish economy has performed well. According to the Scottish Government, Scotland would become the 8<sup>th</sup> richest country in the OECD in terms of GDP per capita as an independent state.
- The Scottish economy draws significant benefits from the integrated economy with the UK however, with free movement of goods and services, labour and capital. And the freedom to trade goods and services across the UK supports greater productivity through knowledge sharing, specialisation and economies of scale. An independent Scotland would likely suffer from a 'border effect'. Independent analysis has shown that trade between countries even within the EU, is less than between regions of the same country.
- For example, a study showed that the presence of the border between the United States and Canada reduces trade between the countries by 44%.
- When studying the SNPs vision of a future independent Scotland, higher Social spending seems to be a central goal, in the form of ample state-sponsored pensions, quality medical care and public housing. Higher social spending requires higher incomes than today. That in turn depends on economic growth. Already Europe spends too much on social spending.
- In the case of independence and higher state spending, it is likely that growth in Scotland would become dependent on two rather volatile sectors.
- The first of these is financial services. In current terms, it would be 10 times larger than Scotland's GDP. For small countries, as Sweden knows, financial crises can have large negative effects as the smaller tax base makes it more difficult to resolve financial stability problems. In the past decades, many countries have suffered greatly due to this. One worrying example is Iceland which had a very large financial sector and with the crash, the economy plummeted.
- The other sector on which the Scottish Economy would be dependent is oil and gas. Supply and demand, and therefore revenue from this sector is heavily affected by external events.
- Since devolution, Scotland's share of the North Sea oil and gas revenue has fluctuated between £2 billion to £12 billion pounds. That amounts to between 2.4% - 8.3% of Scottish GDP.
- First Minister Alex Salmond wants to emulate the Norwegian model of creating a sovereign wealth fund (setting aside a tenth of oil and gas revenue each year) – to help offset some of the problems caused by the price fluctuations. The UK government, together with international experts believes that the analysis, on which the likelihood of a sovereign wealth fund succeeding is based, is not convincing.
- Although it is true that independent estimates have shown that the current reserves would last for 30-40 years, the Office for Budget Responsibility has predicted that oil revenue will

fall by 38% by 2017-2018 due to decreasing demand and increased production of shale gas and liquefied natural gas exported from the US and other places.

- The UK government believe that the integration of the Scottish economy into the larger and more diverse UK economy shields the Scottish economy from the damaging effects of economic volatility and limits the impact of global crisis. The UK's broader and more diverse tax base helps maintain the stability of spending in Scotland and smooth the impact of volatile sources of revenue. An independent Scotland would also be likely to be required to pay much higher borrowing costs on the international credit market.
- When it comes to the **currency** of an independent Scotland, the Scottish Government insists that it would continue to use the pound. However, the Chancellor of the Exchequer, George Osborne, has stated that a potential currency union between Scotland and the rest of the UK would require difficult negotiations as issues of interest rates and different institutional frameworks between the two countries would not make a currency union the easiest to manage. In addition, the Euro crisis has shown us what arguably happens when currency unions are entered into without adequate preparation and foresight.
- Finally, it is not just the UK government that has expressed concerns about the economic situation of an independent Scotland. Recently David Frost, CEO of the Scotch Whiskey Association recently said that he was worried over the ability of an independent Scotland to promote, support and stimulate growth in the Scottish whisky industry as well as the UK government does today. Foreign investors have also argued that they might change, ie reduce, their investments in Scotland post-independence.

### **The UK Government view**

- If Scotland becomes independent it would not be a cataclysmic event. Scotland would continue as would the rest of the UK: but that is not the point. The point is that we are and will be stronger, more prosperous and better equipped to meet the challenges of tomorrow if we stay together.
- Our Prime Minister has presented strong arguments why we, as citizens of the United Kingdom, believe that Scotland should stay.
- The first of these is the human connections that the UK consists of. Indeed, David Cameron has called the UK an intricate tapestry of relationships. Gone are the times when a person was born, grew up and worked his/her whole life in the same place. Within the UK, that hasn't been the case for a long time. You can be born in Wales, grow up in London, be educated in Northern Ireland, and then move to work in Edinburgh.
- For many of us, myself included, there is no contradiction in being proud of your Scottishness, your Britishness, and being European, all at once.

- The second reason set out by our David Cameron is prosperity. A trading nation, standing at the forefront of removing trade barriers, our family of nations, the UK, has simply been spectacularly successful in this endeavour.
- The UK has the highest number of company headquarters in Europe. We attract more Foreign Direct Investment than any other country in Europe. And we have together emerged from the deepest financial crisis since the 1930s. We are growing faster than any other G7 country. We have done this together.
- The third is the United Kingdom's place in the world, where we defend our interests and promote our values, including through our place at the UN's Security Council, at NATO, the G7 as well as the EU and the Commonwealth. I've seen first hand in New York and Brussels the influence the UK can wield. Being together makes a big difference.
- Simply put, we are more as a United Kingdom –politically, militarily, diplomatically and culturally. It's a question for those in Scotland in September whether that will remain the case. The case of the British government is clearly that it should.