

WRITTEN EVIDENCE FROM PAOLO DARDANELLI

An Independent Scotland and EU Membership

Evidence submitted to the Scottish Parliament European and External Relations Committee's inquiry into "The Scottish Government's Proposals for an Independent Scotland's Membership of the European Union"

Executive Summary

1. In assessing the pros and cons of an independent Scotland's membership of the European Union, we need to take into account the multifaceted nature of the question.
2. We also have to take into account its dynamic nature, making such an assessment necessarily mostly a matter of speculation.
3. Alternatives to EU membership, such as membership of the EEA or Swiss-style bilateral relations, are sub-optimal so the real choice is between membership and 'the open sea'.
4. A crucial variable is whether the Rest of the UK decides to remain in the EU or not.
5. Should an independent Scotland wish to re-orient itself towards Scandinavia, the trajectory of Denmark and Sweden would also be of primary importance.
6. Membership would be in the best interests of an independent Scotland on the basis of the EU as currently constituted but a number of factors might affect its viability in the medium term.

Submitter

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1. Purpose

This brief written evidence is intended to address the following statements of the Scottish Government: a) "membership of the EU is in the best interests of Scotland" and b): "membership of the EU provides the best international economic framework within which to optimise the economic and social gains of independence and tackle the global challenges that we face" and support the debate in the first evidence session of the Committee's inquiry.

2. A multifaceted and dynamic question

The question of whether membership of the EU would be in the best interests of an independent Scotland is a multifaceted one, touching as it does on a wide range of aspects pertaining to the country's economy, security, identity and so forth. The benefits Scotland would derive from membership and the costs it would incur in each of these spheres are likely to be different and possibly diverging, and some are less easily quantifiable than others.

The object of the question is also a highly dynamic one, in at least four ways. First, Scotland would have to decide whether to be a 'semi-detached' member, thus following in the footsteps of the UK, or playing a full role. Second, the EU is undergoing significant internal change that might lead in the medium term to the emergence of a very different organisation, the contours of which we are only imperfectly able to predict today. Second, the UK is reviewing its own membership of the EU, a review which might result in its (what would be the Rest of the UK, or RoUK, by then, if Scotland secedes in 2014-16) withdrawal before the end of the current decade. Third, Scotland would take time to 'find its feet' as an independent state and its future trajectory would naturally affect the costs and benefits of membership, broadly understood.

Reaching an assessment of whether being a member of the EU would be in the best interests of an independent Scotland thus requires setting the many different aspects of the membership trade-off against each within a highly fluid context. It is thus an exceedingly difficult exercise and one that has of necessity to be based on a considerable amount of speculation and educated guesswork.

3. EU membership on current terms

EU membership can essentially be seen as a trade-off, placing constraints on its members' autonomy on the one hand but delivering a range of benefits on the other. A positive assessment of membership rests on the costs of membership being outweighed by its benefits. In the remainder of this evidence I shall focus primarily on the economic aspects of membership, with references to the second statement of the Scottish government object of this inquiry.

The main costs for an independent Scotland would be as follows:

- a) the country would be bound by EU market regulation, which in some cases might impose a heavier burden on business than Scotland might have unilaterally chosen
- b) as a member state richer than the EU average, Scotland would likely be a net contributor to the EU budget
- c) its fishing industry would be constrained by the EU common fisheries policy.

Such costs, however, should be set against the benefits Scotland would derive, the most prominent of which include:

- a) unfettered access to the EU's single market of 500m people, the world's largest market by value. As an economy substantially reliant on exports, this would be of crucial importance to Scotland, especially in regard to the country's attractiveness as a location for multinationals wanting to serve the EU market from a Scottish base.
- b) direct access to EU decision-making, including membership of the European Council and the Council of Ministers. Although many policy areas are governed by qualified majority voting, member states retain a veto in some areas and there is a strong culture of consensus, meaning member states of Scotland's size 'punch above their weight'.
- c) through the EU, Scotland would be able to negotiate trade agreements with third parties on more favourable terms than it might be able to obtain by negotiating on its own.

d) it is likely that as a member of the EU Scotland would be able to project its influence on to the rest of the world more effectively than by acting alone on the world stage.

Although quantifying non-financial costs and benefits is tricky, it seems reasonable to argue that the latter would outweigh the former, hence that membership would be in the best interests of Scotland.

4. Joining the core?

The above 'stylised' assessment assumes that Scotland would decide to follow the UK's path of a 'semi-detached' form of membership. Alternatively, it may decide to become a 'full player'. If so, this would likely require adopting the euro and joining the Schengen free-circulation area, although neither is currently in the plans of the Scottish government. When it comes to Schengen, of course, Scotland would be in a similar situation to Ireland, which has not joined it because it would have meant losing freedom of movement within the British Isles.

As both the euro and Schengen touch on high-profile, politically sensitive issues – currency and immigration – public attitudes might present a significant obstacle with which a change of course would have to contend. While there is currently no virulent Euroscepticism in Scotland, trying to deepen the country's integration might indeed stoke it, given less than enthusiastic mass opinion on many aspects of the EU.

5. Alternatives to membership are sub-optimal

Alternatives to EU membership Scotland might be tempted to consider include membership of the European Economic Area (EEA), of which the main example is Norway, and Swiss-style bilateral relations. Both have been advocated by those arguing for the UK's exit from the EU, on the grounds that they would be preferable to the status quo. Virtually all the analyses that have set out to assess the relative merits of either compared to the current UK 'tailor-made' membership, which leaves it outside monetary union and Schengen, however, have concluded that they are actually an inferior way of pursuing relations with the rest of Europe. This is primarily because both Norway and Switzerland are directly or indirectly bound by EU law but have no say in shaping it. As these alternatives are thus sub-optimal, the real choice facing an independent Scotland would be between EU membership and 'the open sea'.

6. Decision by RoUK is a key variable

A key variable is whether the RoUK decides to stay in the EU or not. If the Conservatives win the 2015 general election a referendum on the issue will be called in 2017. Judging by the current state of public opinion, the probability that the electorate will decide to vote in favour of withdrawal is high, perhaps as high as 50 per cent.

Even if it decides to re-orient itself towards the Continent or towards Scandinavia, an independent Scotland would still be closely linked to the RoUK for a long time after secession. Should the latter decide to leave the EU, this would naturally have a major impact on Scotland's own position and may lead to a situation in which EU membership would no longer be in the country's best interest – see below.

6. EU evolution scenarios

Parallel, but also partially linked, to the RoUK's decision, the EU can also be expected to evolve significantly in the foreseeable future. Key to such evolution will be the internal dynamic within the Eurozone (EZ) and relations between the latter and the wider EU. I would expect the following main trends to unfold:

- The EZ is likely to deepen its integration, especially in the form of a 'banking union' and closer supervision of member states' economic policies, but short of a transition towards a federal system.
- The EZ is also likely to expand, to include countries such as Poland, the Czech Republic, and Hungary.
- A larger and more integrated EZ would deepen the marginalisation of the non-EZ member states, especially if the RoUK, by far the most important non-EZ member state, leaves.
- Scotland's accession to independence within the EU would set a precedent for other 'stateless nations' aspiring to independence such as Catalonia and Flanders. Were they to achieve independent statehood within the EU too, they might be natural allies for Scotland in EU decision-making. If this does not take place, however, Scotland might face the hostility of member states threatened by secession movements, notably Spain.

7. Trajectory of the Scandinavian countries

An independent Scotland might decide to re-orient itself towards Scandinavia in the medium term. If so, the trajectory of the Scandinavian countries in relation to the EU would affect the viability of Scotland's own membership. Iceland – having decided to drop its application – and Norway are likely to remain outside the EU but within the EEA. The Faroe Islands are also likely to keep their current status of a Danish territory but outside the EU. The key variables are the trajectories of Denmark and Sweden. Having both rejected adoption of the euro by referendum, the two countries are unlikely to join the EZ for the foreseeable future. A RoUK departure, however, would have a major impact, possibly leading them to reconsider their position too, either by joining the EZ or by following the RoUK out of the EU. In an extreme, but not too far-fetched, scenario in which the RoUK leaves, and Denmark and Sweden, and possibly Ireland too, leave as well, Scotland would find itself surrounded by non-EU members.

8. Conclusions

Deciding whether membership of the EU would be in the best interests of an independent Scotland requires an assessment of the question in relation to the EU as it is currently constituted as well as consideration of its likely evolution in the medium term. A key question mark hanging over such evolution is whether the RoUK would leave if a referendum on membership is held in 2017.

Given that alternative institutional forms of relations with the EU short of full membership – such as the EEA and Swiss-style bilateral relations – are sub-optimal, I consider that membership of the EU as it currently constituted would be in the best interests of Scotland if the country accedes to independence in 2014-16.

Were the RoUK to leave, though, and taking into account the likely internal evolution of the EU – notably the deepening and widening of the EZ – the viability of EU membership for Scotland would be severely affected and the country might indeed find itself in a situation in which membership would no longer be in its best interests.

9. Recommendations to the Committee

My central recommendation is that the Committee should consider EU membership as being in the best interests of an independent Scotland on current terms. As the EU is likely to undergo potentially far-reaching changes in the medium term, this should be considered as a provisional recommendation which would require revision in the light of such changes if and when they occur.

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