



## Europe and Foreign Affairs:

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Taking forward  
our National  
Conversation

# Choosing Scotland's Future

A National Conversation

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# Foreword by the Minister for Culture, External Affairs and the Constitution

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Scotland has made a significant contribution to global culture, economy and life over its history. Our relationship with other world nations has been and will continue to be of crucial importance in an increasingly globalised world. However, under current arrangements, Scotland is almost always represented on the international stage by the UK. Foreign Affairs are reserved, severely limiting Scotland's ability to pursue its own agenda in international contexts.

The EU offers a wealth of opportunities to Scotland, from access to free trade arrangements to opportunities to share Scotland's experience and expertise in public policy, investment and administration. Although Scotland is subject to the EU's laws and regulations and Scottish Ministers are accountable for ensuring that these are implemented and complied with in areas of devolved responsibility, the Scottish Government does not have a full role in the development of EU initiatives. Instead, Scotland must rely on the UK Government to represent our interests in the EU, by having our views and interests incorporated into the UK negotiating line. The drawbacks of this position are clear; Scottish concerns can be lost or diluted in the formation of this UK negotiating line, particularly on occasions when Scottish and English interests differ significantly.

Despite the constraints of our current constitutional settlement, Scotland has already demonstrated that it has the capability and maturity to operate effectively in the international arena. Scottish Ministers do attend EU Council meetings as part of the UK delegation, travel overseas to build relationships with other nations and promote Scottish exports, and lobby international organisations directly. But if we could do more, we could constantly improve our performance.

Only an independent Scotland would be able to play a full role in the international context. We would be able to set our own foreign policies to meet our own priorities, whether in international development, immigration or international negotiations. Scotland would continue to be a member of the EU, with the full Member State rights of representation to enable Scottish Ministers to argue directly for Scotland's interests.

This Government believes that independence, with full responsibility for all international representation, is the best option to enable Scotland and the Scottish people to fulfil their potential. This document sets out the difference independence would make, but also describes what could be achieved through lesser constitutional change.

Effective representation of Scottish interests internationally is crucial in an interdependent world, and as part of our National Conversation, we invite views on how to take this forward.

**Michael Russell MSP**  
**Minister for Culture, External Affairs and the Constitution**



# Executive Summary

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This paper takes a pragmatic approach to any arrangements required if the people of Scotland chose to seek further powers for their Parliament and Government, from a continuation of current arrangements within the United Kingdom through intermediate positions which would give greater powers to the Scottish Parliament and Government, to full independence.

## Status Quo

Decisions made in international fora impact both directly and indirectly on the Scottish Government's devolved responsibilities. Most of the business of Foreign Affairs has to be conducted by states recognised as sovereign members of the international community, and so Scotland is normally represented internationally by the UK.

Scotland does, however, have an international presence through three Scottish Government offices overseas and 21 offices operated by Scottish Development International. In the EU, Scottish Ministers are able to attend Council meetings if the relevant Secretary of State agrees, but can only speak to the agreed UK line.

The principles underlying the relationship between the UK and Scottish Governments in international relations and EU Policy are set out in the Memorandum of Understanding and Concordats agreed in 1999. Scottish views should be incorporated into the UK negotiating line, but in practice Scottish interests can be lost or diluted in the formation of this position.

## Commission on Scottish Devolution

The Calman Commission did not consider Foreign Affairs to be within its remit. However, it did make some suggestions for improving the co-ordination of EU policy, particularly through increasing proactive engagement between the UK and Scottish Governments. The Scottish Government would welcome these recommendations as a move in the right direction, but is concerned that they will not be implemented successfully, not least because past experience indicates a reluctance to address such issues at Westminster.

## Devolution max

The strongest examples of sub-state region participation in international fora are found in countries with federal constitutions. Deploying some elements of the constitutions of Germany, Spain, Canada or Belgium could provide benefits for Scotland. This could include an improved role for Scottish Ministers in international organisations or being able to conclude treaties with international partners in some policy areas.

## Independence

An independent Scotland would be able to take a full and active role in the international community. Scotland would be able to develop a distinctive foreign policy on the basis of Scottish security, political, social and economic concerns.

An independent Scotland would continue membership of the EU, fulfilling the responsibilities which membership brings. An independent Scotland would be properly and fully represented in all the EU institutions, with the normal rights of representation for full Member States of the EU.



# 1

## Introduction

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- 1.1. This paper explores some of the constitutional options available to Scotland and illustrates how Scotland's EU and international interests could be promoted within:
- The current arrangements since the Scottish Parliament was established in 1999;
  - A new settlement incorporating the minor adjustments recommended in this area by the Calman Commission;
  - A maximised devolutionary package, in which powers were available to Scotland under a highly decentralised model, still within the United Kingdom, but with increasing rights and responsibilities falling to the Scottish Parliament and Government;
  - Independence.
- 1.2. This paper takes a pragmatic approach to any transitional (or subsequent) arrangements that may be necessary with the rest of the United Kingdom if the preference of the people of Scotland was to seek further powers for their parliament and Government, whether within the United Kingdom or as an independent country.



# 2

## Current Arrangements

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- 2.1. Scotland has made a full contribution to global culture, economy and life over its history. As an outward looking and internationally focussed nation, Scotland's relationship with other world nations has been, and remains, of great importance.
- 2.2. Much of the business of foreign affairs is conducted in accordance with principles and laws that require a state to be recognised as a full, sovereign member of the international community. This means the rights attached to the United Kingdom are, in general, indivisible i.e. they cannot be exercised separately by any part of the UK, except in the name of the UK as a whole. As a result foreign affairs and international development are explicitly reserved by the Scotland Act 1998. This makes it crucial that the UK Government and Foreign and Commonwealth Office (FCO) take full account of, and represent Scots and Scotland, so that the single view promoted by the UK fully reflects and promotes Scottish interests.
- 2.3. The principles underlying the general relationship between the Scottish and UK Governments are set out in the Memorandum of Understanding (MoU) agreed between the UK and the devolved administrations in Scotland, Wales and Northern Ireland in 1999. Detailed aspects of the relationship regarding EU and international affairs appear in the Concordats on International Relations and EU Policy.<sup>1</sup> The MoU and Concordats set out general principles only. They do not generally establish rights, but they do set out the express intention that the UK will involve the devolved administrations as directly and fully as possible in decision making on EU matters which affect devolved areas.
- 2.4. The MoU and Concordats are explicitly intended to be binding in honour only, and not to be legally binding. This leaves key decisions, such as whether a devolved Minister can speak at, or even attend, an EU Council where there is devolved interest, at the discretion of the relevant UK Secretary of State, albeit they should be guided by the principles set out in the MoU and Concordats.

### Overseas representation

- 2.5. For the most part, Scotland's interests overseas are represented and pursued by the UK Government and the British Embassy and Consular network. In addition the Scottish Government directly runs 3 offices overseas to represent key Scottish interests.
- 2.6. The then Scottish Executive established an office in Brussels in 1999 to represent its EU interests. For diplomatic purposes, the staff there form part of the UK's Permanent Representation to the EU (UKRep). They work from separate offices and although they maintain close and productive working relationships with UKRep, they take their political and policy direction from Edinburgh not London.
- 2.7. Two smaller offices were opened in Washington in 2000 and Beijing in 2005. These operate from within the British Embassies there. In addition to these Scottish Government offices, Scottish Development International maintains a network of 21 overseas offices across the world pursuing Scottish Government priorities in

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<sup>1</sup> <http://www.scotland.gov.uk/publications/1999/10/MofU>

## 2 Current Arrangements

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relation to international trade and inward investment<sup>2</sup>. While Scottish officials can and do take active roles in WHO, OECD and UNESCO programmes (for example, a Scottish Director General chairs the OECD's Rural Working Party), Scotland does not have direct representation on key decision-making structures within these organisations.

### International Development

2.8. Scotland has a long been committed to international development work, beginning with the early work of the Scottish missionaries to the more recent contribution of a range of international development organisations, and Scottish public bodies involved in health and education. Scotland currently makes a distinctive contribution to international development with its work with developing countries, recognising our global responsibility to work together to achieve the Millennium Development Goals (MDGs). In financial year 2009/10 the Scottish Government has allocated £6 million to its international development fund; this will rise to £9 million in 2010/11. This work sits alongside UK activities, and efforts by the wider international community, to alleviate the effects of poverty.

### European Union

2.9. In recent decades Scotland has benefited from free trade arrangements established under the European Free Trade Association, the European Union and the European Economic Area. The EU offers a wealth of opportunities for Scotland, allowing the Scottish Government to promote sustainable economic growth at home, by Scottish companies having full and non discriminatory access to the largest single market in the world, and by sharing Scotland's experience and expertise in diverse areas of public policy, investment and administration.

2.10. Currently, as a 'region' of a Member State, Scotland has an active role within the EU, but this is only a subordinate one. We are subject to the EU's laws and regulations, involved in its policy making processes and accountable for transposing EU law into our own national law within devolved policy areas. Thus, while Member State participation in EU decision making processes is considered to be an aspect of foreign affairs, and consequently is reserved by the Scotland Act 1998, key aspects of the UK's implementation of EU obligations falls to the Scottish Government (and to the devolved administrations in Cardiff and Belfast). Distinctive arrangements are therefore in place to seek to incorporate the interests of Scotland, Wales and Northern Ireland.

2.11. A brief consideration of how or whether Scotland is currently represented on key institutions is set out below.

2.12. **The Council of the EU.** At the Council of the EU, Ministers from the national governments of all the EU Member States meet to make decisions that will affect them collectively. In most subject areas, the Council of Ministers shares responsibility with the European Parliament for making laws and taking policy decisions, and it has the main responsibility for the EU's common foreign and security policy.

2.13. Representation in Council enables EU Member States to negotiate directly with other Member States on proposals for EU laws and initiatives. Scotland is represented at Council meetings by the UK Government; when Scottish Ministers attend Council

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<sup>2</sup> Administration costs for SDI offices in 2008-9 were budgeted at £6.7million.

meetings it is part of the wider UK delegation, not in their own right. The EU Concordats envisage that Ministers and officials of the devolved administrations will be fully involved in discussions within the UK Government about the formulation of the UK's policy position on all issues which touch on devolved responsibilities. This should mean that Scottish interests are at least fully considered when the UK line is being finalised, even if those views and priorities can be submerged or diluted by the competing concerns of the other nations in the UK.

- 2.14. Although Scottish Ministers can ask to attend Council, they can only do so with the permission of the relevant Secretary of State, and if granted permission to speak, must speak to the agreed UK negotiating line. This should in theory be a line that they have contributed to and agreed. However in practice the UK does not always ask for the views of Scotland, Wales or Northern Ireland, still less give those views due weight. Indeed, experience shows that a lead UK Department will rarely pursue a Scottish policy interest if it conflicts with their own dominant objective even if, as with the fishing industry, Scotland has the majority interest.
- 2.15. Increasingly scene-setting policy debates take place in *informal* Councils rather than in formal settings in Brussels. Pressures on the Presidency and Council Secretariat of the EU render it nigh on impossible for Scottish Ministers to be represented on these occasions, even if there is goodwill from the UK Government facilitating attendance.

### Box 1: Case Study - Informal Ministerial Councils

Although legislative decisions are not taken at informal Ministerial Councils, they can be important fora for political debate in significant policy areas such as agriculture and fisheries, economic and financial affairs, environment and energy and justice and home affairs. In recent years, successive Council presidencies have used them with increasing frequency. The Swedish Presidency for example used its Environment Informal to discuss preparations for the crucial climate change conference in Copenhagen in December 2009. Unlike formal Councils of Ministers where there is a range of items on the agenda requiring discussion and decision, informal Councils often focus on particular issues in a given policy area such as the content of a future EU policy programme, priorities for policy reform, or are used to prepare the EU's policy position in advance of international negotiations. Given the level of focus, informal Councils are therefore a key means of EU engagement.

The current arrangements for seeking the UK's agreement to attend EU meetings as outlined in the current EU devolution concordat makes no distinction between formal and informal Councils. However, recent experience suggests that, almost inevitably, there is little scope for Scottish Government attendance at informal Councils with the UK often citing pressure on spaces. This ignores the Scottish Government's legitimate interest to engage in areas of importance to Scotland. The Scottish Government is therefore missing out on invaluable opportunities to engage with EU counterparts in policy areas of priority. This would not of course be the case if Scotland was an independent EU Member State as its participation in all Councils, formal or informal, would not simply be at the gift of the UK or anyone else for that matter.

- 2.16. **The European Parliament.** The European Parliament is a central part of the EU decision making process, because MEPs have increasing ability to influence legislation under the co-decision procedure. This procedure means that the European Parliament and the Council have to agree on proposals in order for them to become

law (the effect is similar to the both chambers of bicameral legislature needing to pass legislations before it becomes law e.g. House of Commons and House of Lords; or House of Representatives and US Senate).

- 2.17. The number of MEPs that a country has depends on its size, and is worked out on a principle where there are proportionally fewer MEPs in larger states such as the UK, than smaller states such as Denmark (known as digressive proportionality). Under current arrangements, as part of the UK, Scotland has 6 MEPs. This is considerably less than Member States of a comparable size to Scotland. For example, Denmark and Finland both have 13 MEPs.
- 2.18. **The European Commission.** The European Commission is independent of national governments, and is responsible for upholding the interests of the EU as a whole. It drafts proposals for EU initiatives, and manages the implementation of EU policies and the spending of EU funds.
- 2.19. While the Scottish Government contributes to formal UK consultation exercises, which follow Commission proposals, Scottish views are not always fully articulated in the final UK response. The Scottish Government also responds independently to proposals that are of particular importance to Scotland, though this response does not carry as much weight as that from a Member State. We have also been able to wield influence through informal events, not least because of international respect for our integrity.
- 2.20. **The Economic and Social Committee.** The Economic and Social Committee is a non-political body that represents employers, trade unions, farmers, consumers and other groups that collectively make up “organised civil society.” This committee gives the EU’s socio-occupational interest groups and others a formal opportunity to express their opinions on EU issues and participate in the Community decision-making process. Scotland currently nominates three members of the Committee. Member States of a comparable size to Scotland, such as Denmark, Ireland and Finland, each nominate 9 members.
- 2.21. **Committee of the Regions.** The Committee of the Regions (CoR) is a consultative committee made up of representatives from local and regional authorities in the EU. The Commission and Council are obliged to consult the CoR whenever new proposals are made in areas which have repercussions at regional or local level. This means that proposals on many areas of the EU’s activity must be considered by the Committee. Scotland has 4 full members of CoR, and 4 alternative members who can attend if the full members are unable to. Member States of a similar size to Scotland, such as Ireland, Finland and Denmark each have 9 full members and 9 alternative members of the Committee of the Regions.
- 2.22. In all of the above cases, Scotland has more limited access to, and influence on, decision making than similarly sized European countries. Mechanisms exist for Scottish interests to be fed into the decision making process, directly and via the UK. However these are often lost or diluted during their incorporation into the UK negotiating line, even where Scotland’s carry a disproportionate share of the UK’s interests.

# 3

## Commission on Scottish Devolution

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- 3.1. The Commission on Scottish Devolution<sup>3</sup> explicitly did not consider broader foreign affairs to be within its remit. As such the report says little about much of the subject matter of this paper and instead focuses on how the Scottish and UK Governments could work together on an essentially unchanged legal basis.

### European Union

- 3.2. In relation to EU matters, the Commission recognised<sup>4</sup> that the UK Government has a responsibility to ensure that the interests of the devolved administrations are fully represented on EU matters, and proposed that both the UK and Scottish Governments should be more proactive in engaging with each other where EU legislation or policy impinges on devolved responsibilities. There is already proactive engagement in some areas. For example, in recent discussions with the UK Department of Health about the Cross-Border Healthcare Directive, the Scottish Government emphasised the need for the directive to recognise the potential for different entitlements within a Member State. The UK Government has accepted that this is an important issue for all the administrations that make up the UK, and has included it as a matter for negotiation with the other Member States in agreeing the terms of the draft directive. This level of engagement between Whitehall and devolved administrations is welcome, and demonstrates that where there is willingness the spirit of the Memorandum of Understanding and Concordats can be delivered. The Scottish Government has therefore welcomed this recommendation from the Commission, and is ready to play its part in improving mechanisms and the flow of information so that good practice is replicated elsewhere.
- 3.3. The Commission also argued that there should be a presumption that when Scottish Ministers wish to attend Council of Ministers meetings their requests should be agreed, and when they ask to speak that the request should be granted whenever practical. These are small steps but since they do go somewhat further, in emphasis if not in absolute rights, than the current Memorandum of Understanding, the recommendations are welcomed by the Scottish Government as representing movements in the right direction.
- 3.4. It is sometimes argued that Scotland benefits from the weight of UK votes in the Council of Ministers.
- 3.5. However if the Commission recommendation that the UK Government should more proactively engage with the Scottish Government were implemented by the UK Government, the arrangement would continue to rely entirely on their political goodwill with no external check or remedy. Whether through omission or commission, the experience of the last 10 years suggests that mechanisms which rely entirely on political or administrative goodwill will work imperfectly, and of course will only function as far as the limits set for them. Furthermore, the analysis that Scotland is better represented by one of the largest Member States does not take into account the occasions when the UK votes against the clear Scottish interest (nor does it recognise that with independence a combined Scottish and rest of UK (rUK) vote would have

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<sup>3</sup> <http://www.commissiononscottishdevolution.org.uk/uploads/2009-06-12-csd-final-report-2009fbookmarked.pdf>

<sup>4</sup> Commission on Scottish Devolution (2009) - Serving Scotland Better: Scotland and the United Kingdom in the 21<sup>st</sup> Century - Pg 126-127

even greater weight, so when the two countries agree, each would be part of an even bigger voting bloc).

- 3.6. So although a renewed emphasis on early and proactive engagement by UK Government departments with the Scottish Government when they are developing EU policies could help ensure that the Scottish Government's position was better incorporated into the final UK-wide position, it seems more likely that UK departments will continue, in practice, to be reluctant to involve the Scottish Government early in the process, or through oversight will fail to do so.
- 3.7. This situation often arises when discussion and negotiation is needed between Whitehall Departments, for instance between a policy Department and the Treasury, or where the policy interest is shared between 2 or more Departments. The UK Government rarely includes Scotland, Wales or Northern Ireland at this stage of internal discussion, despite commitments in the MoU. This means that decisions are presented to the devolved administrations as a *fait accompli*, since to take on board meaningful contributions from the devolved administrations at that stage would mean reopening Whitehall negotiations.

#### **Box 2: Case Study - Foot and Mouth Disease**

During the Foot and Mouth disease outbreak in 2007, Scottish livestock keepers began to suffer significant economic hardship as a result of restrictions on animal movements. There were also major animal welfare concerns, given the number of animals that had to be moved over a much shorter timescale than normal, and political and welfare issues which would arise if they were not moved.

When the animal movement restrictions were lifted, the Scottish Government decided that a temporary extension of permitted drivers' hours was needed to relieve pressure. This additional time was needed to move animals in lorries whilst subject to the additional disinfection requirements, but required a relaxation of the drivers' hours regulations. The Scottish Government took the case to the Department for Transport as the Member State authority in this area, who had responsibility for deciding whether to lay legislation in Westminster to allow this, and for informing the European Commission if they did. However, the UK Government did not properly understand the hardships facing Scottish hill farmers. After one month, the Department of Transport rejected the Scottish Government's case and refused to grant any extension to the permitted drivers' hours. It was only when a similar need emerged in England that the Department of Transport changed its position.

If the recommendations of the Calman Commission were successfully implemented, they might make a recurrence of this type of incident less likely. However, the Scottish Government is concerned that they are not likely to be implemented successfully. Only an independent Scotland would have the authority to make this type of decision for itself with responsibility for all transport sectors or modes which would have been affected by this change. Scottish Ministers would have to determine how to balance the urgent animal welfare needs with legitimate road safety concerns.

- 3.8. Even when internal negotiation has not been necessary within Whitehall, UK departments currently undertake "double hat" responsibilities, by representing English policy views whilst also co-ordinating and delivering the UK negotiating line.

Situations also arise where a Whitehall department is responsible for both negotiating grants from the EU and for representing England in the negotiations about the distribution of grants within the UK, e.g. in relation to structural funds. Revised processes are needed to ensure that the finalised UK Government negotiating position fairly reflects the contributions and interests of the four countries within the UK. For instance, there are examples of occasions in the past when a UK Government Minister has chaired such meetings, taking a UK wide view, whilst another UK Government Minister represented English interests, with Scottish, Welsh and Northern Irish Ministers also attending.<sup>5</sup>

- 3.9. The development of an effective dispute resolution mechanism would further strengthen the effectiveness of the devolution settlement. The Memorandum of Understanding describes the JMC as having a role in the resolution of disputes about the involvement of devolved administrations in the EU matters. The JMC has not generally operated in this way but an effective and transparent mechanism which allowed devolved administrations to raise concerns when they did not think their views had been properly taken into account would reassure the public that a fair process existed for the creation of a UK position.

### International

- 3.10. Just as there should be a renewed emphasis on early and proactive engagement by UK Government departments with the Scottish Government when they are developing policies with an EU dimension, UK departments need to involve the Scottish Government early in the process of drawing up international negotiating positions. Otherwise the risk is that international policy is driven by English concerns without the views of the devolved administrations fully understood.

### Immigration

- 3.11. The report does give comparatively brief consideration to immigration, though within the bounds of the current reservation. This recognises that Scotland has its own distinct skills and demographic needs and that a 'one size fits all' immigration system does not work. Within the existing reservations it is important that the Scottish Government continues to explore with the Home Office flexibilities in the Points Based System to help achieve the aims of population growth to support short-term and long-term economic growth.

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<sup>5</sup> Commission on Scottish Devolution (2009) - Serving Scotland Better: Scotland and the United Kingdom in the 21st Century - Pg 126-127, p131



# 4

## 'Devolution Max'

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- 4.1. The strongest examples of sub-state region participation in Member State decision making in the EU and international fora are found in countries using federal constitutions. It may seem unlikely that the UK will go down a federalist path, but deploying elements of the federal or quasi federal constitutions in Germany, Spain, Belgium or Canada, could provide further benefit for the people of Scotland, though admittedly this would fall short of the full benefits of independence.

### International

- 4.2. Scottish interests in international affairs could be extended by constitutional agreement within the United Kingdom. Within the Belgian federal system, Flanders has autonomy to conclude treaties with international partners in some policy areas. Flemish Ministers have the right to represent Belgium within the European Council of Ministers and negotiating positions are agreed in advance between the Flemish and Federal government. It is conceivable that a federal constitution or agreement could be reached between the Scottish and UK Governments which would extend the same approach to Scottish Ministers representing the UK in international organisations and at international negotiations.
- 4.3. In addition, as Scotland does not have its own seat in UN or other international negotiations, it is vitally important that the UK properly consults the Scottish Government on the formulation of negotiating lines affecting devolved interests. The role of the Scottish Government in contributing to international development and nuclear non-proliferation should be recognised as a natural part of the devolution settlement and Scottish officials and Ministers should, where appropriate, be invited and expected to form part of UK delegations. For example, Scottish participation in UK preparations for the nuclear non-proliferation treaty discussions in 2010 would be a welcome step forward.
- 4.4. However, although some improvements could be made to current arrangements – from minor though helpful adjustments, to more fundamental changes which would begin to reflect a federal model – it is only through independence that Scotland would be able to fully shape a distinctive policy, and participate in international negotiations on a level playing field. Scotland could also strengthen the UK ambitions on climate change, given the strength of action we have taken, if only we were more engaged in the international preparations for the Copenhagen Climate Change Summit.

### Overseas Representation

- 4.5. In terms of overseas representation, Scotland's interests would be better served by having diplomats directly serving its interests in key countries overseas, not just in Brussels, Washington and Beijing. With a 'Devolution Max' model it would be possible for the FCO to set aside a part of its current budget to allow Scotland, Wales and Northern Ireland to appoint specialist diplomats whose job it would be to pursue points of particular interest to the devolved administrations. In the case of Scotland, this might mean Scottish Interest Sections being created within British Embassies in major countries in the EU and other key partner countries, alongside an expansion of existing representation in Washington and Beijing.

### European Union

- 4.6. Just as sub-state participation in international fora could be strengthened under a federal arrangement, Scottish participation in the EU could be similarly strengthened. In Germany, for example the Bundesrat, the second chamber of the Federal Parliament, comprising of representatives from the State Governments, is able to participate in decision making about EU matters insofar as the subject falls within the competence of the German Länder. Even where the matter is within the exclusive competence of the Federal Government, the position of the Bundesrat should be taken into account where Länder interests would be affected. Furthermore, where the matter relates primarily to an area of Länder competence, a representative of the Länder represents Germany in EU Council meetings.
- 4.7. Even without a new constitutional agreement in the UK, lessons could be learnt from the German approach to Länder involvement. Particularly helpful is the recognition that there are occasions on which it is entirely proper for a representative of a sub-Member State region to lead the Member States representation at EU Council meetings. Scotland is responsible for landing 66% of the total UK volume of fish and for 80% of UK aquaculture production. As fisheries policy is devolved, the Scottish Government has argued strongly that a Scottish Minister should take the lead in EU Council meetings discussing fishing and aquaculture policy ensuring full discussion takes place with other parts of the UK beforehand to ensure their voices are fully represented.

#### Box 3: Case Study - Fisheries

Fisheries is a vital industry to Scotland, supporting communities all around our coast. Fisheries and aquaculture products are estimated to provide around £600m to the Scottish economy annually. Management of fisheries is devolved to Scotland. With the bulk of UK fishing quota and fishing capacity in Scotland, and around one fifth of all EU waters, Scotland is recognised as the most significant Northern Europe fishing nation within the European Union. We also have a growing reputation for innovative and successful fisheries management with close relations with the industry.

Much has been achieved but much more needs to be. The recent economic downturn combined with the impacts of severe fishing restrictions through EU regulations has put considerable pressure on Scottish fishermen. Many of our most important stocks are managed through a bilateral agreement between the European Union and Norway, given these stocks occur in both EU and Norwegian waters. Scottish concerns are promoted as part of a UK package of negotiating priorities. Interests of fishermen in England and the rest of the UK can differ significantly from those of Scottish fishermen. Although the Scottish Government puts great effort into ensuring that the UK position reflects our interests, ultimately these have to be measured against other UK concerns.

We have long argued that, as the majority stakeholder within the UK, Scottish Ministers should lead on EU fisheries negotiations. Under a more developed devolution settlement, responsibility for representing the UK's interests at EU fisheries councils could be delegated to Scottish Ministers. Scottish Ministers could then ensure that the UK negotiating position balanced the needs and concerns of the Scottish fisheries with those of fisheries in the other parts of the UK. However, Scotland would require full independence before it would be able to speak with a separate, distinct voice within Europe.

- 4.8. In Spain, the Autonomous Provinces now have legal rights to attend Council of Ministers meetings as part of the Spanish delegation and to speak for Spain in areas of devolved competence (with one Autonomous Province representing the interests of the others). A similar arrangement in the UK might involve a legal right for one of the devolved administrations to attend and speak at Council, with prior consultation taking place to ensure the interests of the other devolved administrations were properly represented. Attendance at Council could rotate between Scotland, Wales and Northern Ireland, as happens in Spain with the Autonomous Provinces, or discussion between the devolved administrations could agree which Council each wanted to attend.



# 5

## Independence

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- 5.1. It is only independence that allows unmediated access to full participation in international organisations and foreign policy. Alongside its representation in the EU, an independent Scotland would be able to represent its interests directly in the UN and other foreign policy arenas, without having its particular concerns and interests lost or diluted in the formulation of UK negotiating lines.

### Overseas Representation

- 5.2. The building of alliances and smarter deployment of resources better focused on Scotland's needs, rather than the projection of power and status, would be key to representing Scottish interests internationally.
- 5.3. Scotland would develop relations with other countries solely based on Scottish security, political, social and economic interests. This would present opportunities for improved cooperation on security and political priorities, trade and inward investment and development.
- 5.4. A Scottish Foreign Service and embassy network could and should look very different from the FCO model. Scotland's approach would be much more likely to be similar in scale and proportion to those of other small nations, focussed on markets and nations of particular priority to Scotland, and seeking influence through expanded relationship building with the Scottish Diaspora and the creation of appropriate alliances, for example through closer co-operation with international organisations such as the Nordic Council.
- 5.5. As mentioned earlier, the Scottish Government already has officials working directly to represent Scottish interests overseas in Brussels, Washington and Beijing and, in Scottish Development International, Scotland has a direct presence in 21 overseas offices, working to attract inward investment and promote Scottish exports.
- 5.6. Under current arrangements, Scottish Government officials working on Scottish Affairs are accredited with UK diplomatic status and work alongside, or within, UK representations overseas. That reflects the fact that in many policy areas Scottish and UK interests coincide. Independence would not change that and there is no reason why close co-operation on policy and representation, up to and including shared services, should not continue where Scotland and the rUK agreed that was of mutual interest. A shared services approach with other countries could also be considered, as could a model of using a widespread network of Honorary Consuls supported and reinforced by the deployment of career diplomats where that was required. See Annex A. An independent Scottish foreign service would also allow for the development of a programme of international cultural engagement to allow for Scottish cultural exchange with other countries and societies.

### International Organisations

- 5.7. An independent Scotland would be recognised as a state in its own right by the international community and would become a full member of the United Nations and other international bodies, such as the Commonwealth, the World Health Organization, the Organisation for Economic Co-operation and Development and the World Trade

Organisation. Both in these arenas and generally it would be able to develop its own foreign policy to promote Scotland's interests internationally, and engage with other states as an equal partner.

- 5.8. Small countries can and do take lead roles in international organisations and policy development. Key positions within the United Nations including that of Secretary-General are often filled by individuals from smaller nations. Small countries such as Sweden, New Zealand, Switzerland and Finland have all made significant global contributions to security, peace and reconciliation initiatives. New Zealand, for example, hosted a major conference on cluster munitions as the part of the Oslo Process. Following this, in May 2008 the Oslo Process culminated in the successful conclusion of a new international treaty banning cluster munitions that cause unacceptable harm to civilians, with New Zealand chairing the key discussions on the definitions of weapons to be banned. With the 'Edinburgh Conversations' in the 1980s, Scotland has already played host to efforts to promote dialogue and keep open channels of communication. Independence would offer a clearer opportunity for Scotland to make this kind of contribution.

### International Development

- 5.9. Independence would offer Scotland the opportunity to act as a responsible nation, significantly increasing its contribution to international development and allowing it to develop more direct relationships on an international scale and thereby achieve greater influence and impact.
- 5.10. Scotland would develop a stronger and more influential international development programme, strengthening Scotland's contribution to the achievement of the Millennium Development Goals and our reputation as a nation focused on building peace and prosperity in the world.
- 5.11. At a general level, with full fiscal autonomy and control of Scotland's budget, the Scottish Government could consider raising the International Development budget over time, allowing Scotland to meet the 0.7% of GDP commitment from the G8. Denmark, Sweden and Luxembourg have all exceeded this target.
- 5.12. Scotland, taking on membership of appropriate organisations, would also be in a more direct position to lobby other countries who are not meeting these commitments and negotiate around the obstacles to economic growth for developing countries such as removing trade barriers, reflecting the interest in the fair trade agenda in Scotland.

### Borders and Citizenship

- 5.13. It is important that people can identify with the community in which they live and that they feel valued and part of Scottish society. Citizenship in Scotland would be based on an inclusive model designed to support economic growth, integration and promotion of diversity. Given Scotland's close ties to the other parts of the British Isles a positive approach to dual citizenship would be essential; and given the existence of EU citizenship consideration could also be given to the creation of enhanced citizenship arrangements with the nations of the rUK.
- 5.14. An independent Scotland would manage immigration effectively to meet our own economic, social and demographic priorities and needs. An independent Scotland would be better placed to create the conditions for talented people to live, learn, visit, work and remain in Scotland. Scotland could have its own Green Card that would

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allow it to compete with other nations in the global market for non-EEA highly skilled workers and would encourage migrants to seek Scottish citizenship.

- 5.15. Scotland has a long history of welcoming refugees and asylum seekers. An asylum system based on integration for asylum seekers and refugees from day one of their arrival and operated in line with international and European standards could be designed to reflect our tradition of offering refuge and our approach to the welfare and rights of children. A Scottish asylum system could be operated to allow asylum seekers to work in Scotland while awaiting results of their claim and, where appeal rights had been exhausted, claimants with scarce skills could be granted leave to remain if their employer undertakes to continue to employ them. Scotland would work closely with the United Nations High Commissioner for Refugees (UNHCR) to operate a gateway protection programme that meets the needs of Scotland.
- 5.16. Scotland would collaborate with our partners on these Islands and in the European Union to manage border controls and national security. Scotland would issue its own passports on the EU model. Scotland would maintain existing open border arrangements with the other nations on the British Isles. Like every other similar sized nation in Europe, an independent Scotland would ensure it had the appropriate defence capability and co-operation.

### The European Union

- 5.17. An independent Scotland would continue membership of the European Union, fulfilling the responsibilities which membership brings.
- 5.18. The European Union provides a market for Scottish exports, and guarantees fairness and non discrimination for Scottish businesses in EU markets. Where such markets are highly regulated (such as energy, telecoms and financial services), an independent Scotland could work closely with regulatory bodies in other countries to ensure that the objectives of the EU single market were met. The Scottish Government could put mechanisms in place to ensure cross border cooperation, trade and investment, while removing some of the barriers which have hindered development of Scottish industry in the past.
- 5.19. We would continue to be bound by the laws of the EU, but would be on a level playing field with other Member States. European law, which Scotland already has a responsibility to transpose in devolved areas, would be made through a process in which Scotland had a full voice and we would be able to shape distinctive European policy and set priorities to maximise Scotland's interests and extend the greatest influence within the EU.
- 5.20. Scotland could be properly and fully represented in all the EU institutions, with the normal rights of representation for full Member States of the EU. An independent Scotland would be able to represent itself in all Council meetings, formal and informal, with Scottish Ministers negotiating on behalf of Scotland, with a position formulated to deliver the best results for Scotland. Scottish Ministers would be able to attend all Council meetings, and would be able to directly engage in key areas of decision making which only UK Ministers currently participate in, such as the future financing of the EU. We could prioritise issues for ourselves as a nation, and build alliances with other countries to negotiate to get the result which best serves our national interest.

### Box 4: Case Study – Woodland Creation

The creation of areas of woodland delivers a wide range of economic, social and environmental benefits. Trees play a significant role in fighting climate change; Scotland's forests currently lock up around 10 million tonnes of carbon dioxide each year, reducing the volume of this greenhouse gas in the environment. Increased areas of woodland also support local businesses and farm diversification, and provide recreation and conservation benefits.

The Scottish Government has recognised the benefits of creating areas of woodland, and has set an ambitious target of 25 per cent woodland cover in Scotland by 2050. It is therefore keen to use every lever possible to encourage woodland creation across Scotland. However, the latest Rural Development Regulation, implemented in 2007, capped the intervention rate for woodland creation. This limits the maximum amount of financial support the Scottish Government can give to woodland creation projects, making it harder to encourage landowners to undertake them.

When this regulation was being negotiated, the support of woodland creation was not as high a priority for the UK Government as it was for Scotland. Although our concerns were partially incorporated into the UK negotiating position, this was not adopted as a red-line issue for the UK government. If Scotland had been negotiating separately as an independent Member State, it would have been able to treat this issue with the importance the Scottish Government believed it deserved.

- 5.21. The Council of the EU has a rotating presidency, which gives every Member State the responsibility of holding the presidency for 6 months. At present, the presidency Member State chairs and decides the agenda for all Council meetings, and represents the Council to other EU institutions and external organisations. While implementation of the Lisbon Treaty would change some of these responsibilities, an independent Scotland would nevertheless hold the presidency of the Council of Ministers on rotation, and would be able to promote and take forward priority issues during this period.
- 5.22. The European Council meetings of the heads of government or state of each Member State in the EU are of critical importance for determining the strategic direction of the EU. At the moment, Scotland is represented by the Prime Minister of the UK. However, an independent Scotland would be able to send its own First Minister to these meetings, and could contribute directly to the discussions with its own distinct position.
- 5.23. An increase in the number of Scottish MEPs in the European Parliament would improve the representation of Scottish views in this forum. It would enable Scottish MEPs to be members of a broader range of Committees, which is where much of the crucial scrutiny of Commission proposals takes place. Denmark's 13 MEPs, for example, cover a total of 15 committees and subcommittees as full or substitute members. Scotland's 6 MEPs only cover 9 committees and subcommittees, and have no representation on important committees such as the Industry, Research and Energy Committee, the Transport and Tourism Committee and the Budgets Committee. An increase in the number of Scottish MEPs would also improve the opportunities for them to speak on matters of particular interest to Scotland in plenary meetings. Furthermore, an increase in the number of MEPs would improve their capacity to undertake effective constituency work.

- 5.24. Subject to implementation of the Lisbon treaty, an independent Scotland would be entitled to nominate its own Commissioner from Scotland. Although this Commissioner would not represent Scottish views to the Commission, he or she would bring their own awareness and experiences of the particular challenges faced by Scotland to the college of Commissioners. Scotland would also have direct access to the processes for the recruitment of staff in the Commission, in the same way as every other Member State.
- 5.25. An independent Scotland would be able to respond as a Member State to Commission proposals, and consequently its views would carry more weight.
- 5.26. An increase in Scottish representatives on the Committee of the Regions and the Economic and Social Committee would enable Scotland's interests to be more effectively presented in these fora.
- 5.27. **European Court of Justice.** The European Court of Justice ensures that the EU's institutions and Member States comply with the legal obligations of the EU treaties. The Court also judges cases involving the interpretation of Community law, as referred to it by the Commission, Member States and national courts.
- 5.28. There are currently 27 judges in the European Court of Justice, each nominated by a member state but acting independently of the governments of the Member States. Scotland's legal system and methods of training have been represented in the past in the UK nomination to the Court of Justice, through the appointment of Sir David Edward as Judge to this Court from 1992 to 2004. An independent Scotland would be able to ensure Scottish legal expertise was always represented in the Court of Justice.
- 5.29. **Court of Auditors.** The Court of Auditors is responsible for checking that the EU budget has been implemented correctly, and that EU funds have been spent legally and with proper management. The Court comprises one member from each EU state, and is supported by about 800 staff. An independent Scotland would be able to nominate someone to sit on the Court of Auditors, bringing their expertise and experience of audit in Scotland to this Court.

### Box 5: Case Study – Energy Policy

Scotland is an energy rich country, with outstanding natural advantages for renewable electricity generation. While some aspects of energy policy are devolved, such as planning, the promotion of renewable energy, energy efficiency and emergency planning, most responsibilities, including energy market regulation, are reserved.

There are three key aspects of any energy policy; competitiveness, security of supply and sustainability. Under EU law, energy markets have to have an economic regulator who balances these three competing interests. Most responsibility for energy policy, including energy market regulation and the exploitation of oil and gas, is formally reserved to the UK Government, leading to Scottish interests being disadvantaged. For example, Scottish-based electricity generators pay a much higher transmission charge than those in the south of England. Scottish consumers are also disadvantaged as the schemes run by energy suppliers to promote energy efficiency in Britain's homes are not designed for Scottish conditions, despite the fact that heating bills are much higher in Scotland.

There are major constraints in the system for transmitting electricity within Scotland and between Scotland and England, which require major investment to promote renewable electricity generation. Furthermore, the system of locational transmission charging applied by OFGEM and the National Grid encourages generation in the southern part of Britain, and has created an inbuilt bias in the UK transmission regulatory system against all Scottish based generation, not only renewables.

An independent Scotland would be able to develop systems of energy regulation consistent with EU law that reflected the priorities of the Scottish Government and were tailored to the Scottish energy context. With full representation in the EU institutions, the Scottish Government would be able to push for the development of infrastructure to encourage renewable generation. The creation of a North Sea Grid, for example, linking energy producers around the North Sea, could encourage renewable energy generation and exports from Scotland, and also contribute significantly to future energy security in Europe.

### Relations with the rUK

- 5.30. Highest quality relations between an independent Scotland and the rUK would be of clear benefit for both countries. Our common history and geography would mean that the nature of our relationship with the rUK would look and feel different from relationships with other EU Member States. Our economic, cultural and institutional links would still be very strong, and this is something which both nations would be able to use to their advantage. In many senses Scotland's relationship with the rest of the UK would be enhanced, not diminished by independence. As a full partner in the EU with full voting rights Scotland would want to work closely with the rest of the UK to ensure that common interests were reflected more accurately in EU decision making.
- 5.31. Relations would of course be conducted on an equal footing, as sovereign state to sovereign state, but the potential for partnership and collaboration – which is currently sometimes hampered by difficulties over the tensions between reserved and devolved responsibilities – would be very significant indeed. Inevitably existing intergovernmental mechanisms would need to be improved and updated - there would no longer be a need for the specific mechanisms supporting devolution, such as the Joint Ministerial Committee – so we would put in place other inter-governmental arrangements to maximise effective partnership. An independent Scotland would still take part in the British-Irish Council, which fosters positive collaboration between all the administrations of these islands.

### Transitional Arrangements

- 5.32. Scotland already contributes to expenditure on international services through the UK. Government Expenditure and Revenue Scotland (GERS) figures disaggregate the Scottish share of expenditure on international services on a per capita basis, treating the value of such expenditure as accruing equally across the UK. Table 6.1 of GERS 2007-08<sup>6</sup> shows the overall share of expenditure on international services, including overseas representation and international aid, as £568 million, or 1.1 per cent of the Scottish total expenditure and revenue.

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<sup>6</sup>Government Expenditure and Revenue 2007 – 2008, June 2009,  
<http://www.scotland.gov.uk/Publications/2009/06/18101733/0>

- 5.33. There would be negotiation around the division and reallocation of FCO, DFID and other government assets.
- 5.34. With a focused and more targeted expression of Scottish national interests, overseas representation could be grown from these existing resources, using partnership with other nations (see examples in Annex A) and, where appropriate, the opening of new embassies, consulates or trade offices. An independent Scotland could continue to administer its foreign affairs and development programmes from within one part of the Government and seek the economies that would come from not having separate Foreign and Commonwealth and International Development departments.
- 5.35. Foreign affairs jobs that are currently funded by taxes raised from Scotland but are located primarily in the FCO's London Offices would be located in Scotland. There would be additional economic benefit from the increased number and scale of diplomatic representation in Scotland that independence would bring. There are currently 62 consular offices, many of them honorary, around Scotland employing approximately 150 people; Ireland, by contrast has 56 embassies and a total of approximately 660 staff. The benefit to the Scottish economy of the creation of these jobs would be likely to run into tens of millions of pounds.



# 6 Conclusions

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- 6.1. This paper has examined Scotland's options for promoting its interests internationally and within the EU.
- 6.2. Scotland's ability to engage effectively in international fora is limited by two principle factors; arrangements with the UK government which mean that Scotland's interests are not always fully incorporated into the single UK foreign policy and negotiating position, and the constraints resulting from Scotland not being a full, sovereign member of the international community, and therefore relying on the UK Government for almost all of its international representation.
- 6.3. The Scottish Government welcomes the recommendations of the Commission on Scottish Devolution for improving the processes for incorporating Scottish views into UK positions on EU affairs. However, the Scottish Government thinks that it is unlikely that these recommendations could be successfully implemented. A more radical extension of devolution, 'Devolution Max,' could see significant improvements for Scotland. However, it is only under independence that Scotland would have full access to the opportunities and responsibilities of promoting itself internationally.

## How to participate in the National Conversation

The best way to sign up for the National Conversation, or to make suggestions for participation events or methods, is to visit the National Conversation website at [www.anationalconversation.com](http://www.anationalconversation.com) or e-mail [joinin@anationalconversation.com](mailto:joinin@anationalconversation.com).

Responses can also be sent by post to:  
2 E South Victoria Quay  
Edinburgh  
EH6 6QQ



# Annex A – Membership of International Organisations and Ministries of Foreign Affairs

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## Membership of International Organisations

This annex does not address Scotland's future role in the EU, as this has already been considered in the main paper. Other international organisations have different processes for dealing with applications for membership. The following examples demonstrate the diversity in the processes. All information has been sourced from publically accessible information available online. Except where explicitly stated, all figures are provided by the international organisations themselves.

The decision to join or not to join an international organisation would depend on policy decisions made by Scottish Ministers of the time. This list is not intended to pre-empt such decisions. It also does not attempt to highlight the benefits or disadvantages of membership.

### The UN<sup>7</sup>

Paragraph 1 of Article 4 of the Charter of the United Nations states that it "is open to all other peace-loving States which accept the obligations contained in the present Charter and, in the judgment of the Organization, are able and willing to carry out these obligations."

The latest country to join the UN was Montenegro in 2006. Montenegro had held a referendum on 21 May 2006, and declared itself independent from Serbia on 3 June. In a letter dated 3 June, the President of Serbia informed the Secretary-General of the UN that the membership of Serbia and Montenegro was being continued by Serbia, following this declaration of independence. On 28 June 2006 Montenegro was accepted as a United Nations Member State.

Member states make payments to the UN system through assessed mandatory contributions and through voluntary contributions. Assessed contributions cover the regular budget for the UN and peacekeeping operations. Assessed and voluntary contributions are used to finance specialised agencies, while UN Funds and Programs are funded entirely by voluntary contributions.

The primary criterion applied to Members States, through the General Assembly for assessing contributions to the UN is a country's capacity to pay. The amount they actually pay is based on estimates of their GNP and adjustments for external debt and low per capita incomes. A formula is used to determine contributions, which are a percentage of the regular budget.

The peacekeeping budget is funded slightly differently because discounted peacekeeping assessment rates are offered to less developed countries. The 5 permanent Security Council members, who must approve peacekeeping operations, all pay a higher share to fund these discounts.

UK assessed contributions to the UN system totalled £177.6M in 2007, or 6.642% of the UN system budget. UK contributions to UN Peacekeeping totalled £260.3M, 7.8% of the UN Peacekeeping budget. UK voluntary contributions to the UN system totalled £604.9M.<sup>8</sup>

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<sup>7</sup> <http://www.un.org/>

Other country's estimated contributions to the UN:<sup>9</sup>

<b>Table 1: Estimated Contributions to the UN</b>				
Country	% Contribution to respective budgets	UN System	Peacekeeping	Voluntary
Ireland	0.445%	£12m	£15m	not available
Denmark	0.739%	£20m	£25m	£200m
Norway	0.782%	£21m	£26m	£500m
UK	6.642%	£180m	£260m	£600m

The scale of voluntary contributions to the UN vary widely.

### The Commonwealth<sup>10</sup>

To join the Commonwealth, the country must normally have a historic constitutional association with an existing Commonwealth member. It must accept and comply with Commonwealth fundamental values, principles and priorities as set out in the various declarations. It must also demonstrate commitment to democracy and it must accept Commonwealth norms and conventions, including acknowledging the Queen as the Head of the Commonwealth (but not necessarily as Head of State).

There is a 4 step process to join to the Commonwealth. First, an informal assessment is carried out by the Secretary-General of ability to meet membership criteria, followed by consultation with existing member governments, and an invitation to make a formal application. There have been anomalies in the membership process. India attended Commonwealth conferences before it became independent, and the premiers of southern Rhodesia and Burma were invited as observers before their countries' independence. For most overseas territories, Commonwealth membership is approved before independence is achieved, applicants do not have to wait for the next Commonwealth Heads of Government meeting to receive a decision.

The Commonwealth Secretariat and its work are financed by three separate budgets or funds.

1. All member states contribute to the Commonwealth Secretariat on an agreed scale based on capacity to pay. UN scales are used as a guide. The budget for the Secretariat in 2007/8 was £14m The UK currently pays 30%.<sup>11</sup>
2. The Commonwealth Fund for Technical Cooperation is financed by voluntary contributions. The budget in 2007/8 was £26m.
3. The Commonwealth Youth Program is financed by voluntary contributions. The budget for 2007/8 was £2.7m.

Only a Commonwealth country can compete in the Commonwealth games.<sup>12</sup>

<sup>8</sup> FCO Departmental report 1 April 2007 – 31 March 2008, <http://www.fco.gov.uk/en/about-the-fco/publications/publications/annual-reports/departmental-report/>

<sup>9</sup> Estimated using UK figures, and percentage contributions these countries make to the regular budget. 2008 contribution levels, [http://www.un.org/chinese/members/contribution\\_2008.pdf](http://www.un.org/chinese/members/contribution_2008.pdf)

<sup>10</sup> <http://www.thecommonwealth.org>

<sup>11</sup> <http://www.fco.gov.uk/en/about-the-fco/publications/publications/annual-reports/departmental-report/> p127

<sup>12</sup> <http://www.thecgf.com/about/constitution.pdf>

**OECD<sup>13</sup>**

OECD is funded by its 30 member countries, with contributions based on a formula taking into account the size of each Member State's economy. The budget for 2008 was €342.9M.

Rank	Country	Percentage share
4	UK	7.32
16	Norway	1.16
18	Denmark	0.97
24	Ireland	0.68

There is not a standardised accession procedure as the OECD is keen to consider each member on their own merits. The terms and conditions of membership are set by Council by consensus, the final invitation to accede to the OECD Convention needs to be agreed unanimously by Council.

**WTO<sup>14</sup>**

The WTO identifies four stages to the joining process.

1. The government applying for membership has to describe all aspects of its trade and economic policies that have a bearing on WTO agreements. This is submitted to the WTO in a memorandum which is examined by the working party dealing with the country's application.
2. Bilateral talks with individual countries begin, covering tariff rates and specific market access commitments, and other policies in goods and services. These negotiations can be as large as an entire round of multilateral trade negotiations.
3. Working party finalises terms of accession. These appear in a report, a draft membership treaty ("protocol of accession") and lists ("schedules") of the member-to-be's commitments.
4. The final package is presented to the WTO General Council or Ministerial Conference. If a two-thirds majority of WTO members vote in favour, the applicant is free to sign the protocol and to accede to the organization.

The WTO budget is over 160 million Swiss francs with individual contributions, calculated on the basis of shares in the total trade conducted by WTO members.

<sup>13</sup> <http://www.oecd.org>

<sup>14</sup> <http://www.wto.org/>

### IMF<sup>15</sup>

To become a member of the IMF a country must apply and be accepted by a majority of the existing members. When a country joins, it is assigned a quota, based broadly on its relative size in the world economy. This quota delineates basic aspects of its financial and organizational relationship with the IMF including subscriptions, voting power, access to financing and SDR (Special Drawing Rights) allocations.

Country	Contribution (Million SDR)
UK	10,738.5
Ireland	838.4
Norway	1671.7
Denmark	1642.8

### The World Bank<sup>16</sup>

The World Bank is made up five organisations, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Disputes (ICSID). Membership in IDA, IFC and MIGA are conditional on membership in IBRD.

The Membership and Capital Subscriptions Unit of the Corporate Secretariat is the first contact point for enquiries concerning new membership in the World Bank. The Unit is responsible for communications to and from the applicant country regarding membership formalities, such as amounts of proposed capital subscriptions and required payments and documentation. It prepares a draft membership resolution and a report recommending adoption of the resolution which contains the terms and conditions of the applicant country's membership to the Executive Board, and with the Board's approval, to the Board of Governors for a vote.

### The Nordic Council and Nordic Council of Ministers<sup>17</sup>

The Nordic Council was formed in 1952 as a forum for inter-parliamentary cooperation and is a cooperative organisation for the legislatures of the Nordic region. It is based on a series of formal agreements, the most important of which is the 1962 Helsinki Treaty, in which the goals and organisation are broadly defined. Denmark, Finland, Iceland, Norway and Sweden were all and remain original members of the Nordic Council. The Helsinki Treaty has subsequently been amended to allow the legislatures of the Åland Islands, Faroe Islands and Greenland are represented as part of their member state delegation.

The Nordic Council of Ministers is a vehicle for co-operation between the governments of the Nordic countries, and was created through an amendment of the Helsinki Treaty in 1971. It meets in different formats depending on the matters being discussed, with work coordinated by the Nordic Cooperation Ministers. Cooperation strengthens the voice of Nordic countries in an international context, for example, the Nordic countries are currently working together to influence the EU's agenda on sustainable energy.

The total annual budget for the Nordic Council is about DKK30M and slightly more than DKK900M for the Nordic Council of Ministers. Contributions from each members state are based on their population as a proportion of all countries in the Nordic Council. For example, Denmark pays 22.7%, a total equivalent to approximately €28.3M.

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<sup>15</sup> <http://www.imf.org/>

<sup>16</sup> <http://web.worldbank.org/>

<sup>17</sup> [www.norden.org/en/nordic-council/the-nordic-council](http://www.norden.org/en/nordic-council/the-nordic-council)

## Ministries of Foreign Affairs Summary

The cost and activities of a country's Ministry for Foreign Affairs (MFA) will depend on the policy decisions of that country. The following pages provide a top-level summary of five different MFAs, indicating both their activities and their reported costs. Information has been sourced from publically available information, primarily from their 2007 Annual Reports and websites..

The costs provided by each of the MFAs are not directly comparable, as different MFAs undertake different activities. For example, the Finnish MFA is responsible for the maintenance of crisis management troops and the participation of civilians in crisis management, tasks not undertaken by any of the comparator MFAs. The data available does not set out the staffing arrangements within MFAs. In particular, it is not clear whether there are staff seconded (and consequently paid for) by other departments working alongside diplomats and MFA officials.

The countries chosen are recognised to be broadly similar in terms of population to Scotland, and represent a range of different approaches to foreign affairs. Ireland, Denmark and Finland are all countries identified in the Government Economic Strategy as successful small economies Scotland should look to and learn from<sup>18</sup>. The Slovak Republic provides a contrasting example of a relatively recently independent country with a less established MFA. New Zealand provides a comparison with a Commonwealth country with a similar population size, but outwith the EU.

All figures are provided in Euros, along with national currency as appropriate to facilitate easy comparison. The average 2007 exchange rate for the Euro was £0.68 (European Central Bank)<sup>19</sup>.

**Table 4: Ireland - Department of Foreign Affairs<sup>20</sup>**

Diplomatic and Consular services (2007)	76 diplomatic and consular offices
Employees (2007)	approx 1400
Cost (2007) of foreign affairs	€245.747M

The Department's activities include; providing advice and support on relationship with Northern Ireland and UK, pursuing Ireland's foreign policy abroad and promoting and protecting Ireland's interests in the EU, promoting Ireland's economic and cultural interests, contributing to international development through Irish Aid, providing consular and passport services to protect and support the interests of Irish citizens abroad. Enterprise Ireland is also active overseas. It is a government agency that works with Irish owned businesses to secure and grow their international business. It had an expenditure of €266.8M in 2007, and maintained 32 offices abroad<sup>21</sup>. The DFA also spent €572 on aid.

<sup>18</sup> Scottish Government (2007) - The Government Economic Strategy - Pg 5

<sup>19</sup> European Central Bank Euro Foreign Exchange Rates

<http://www.ecb.int/stats/exchange/eurofxref/html/index.en.html#downloads>

<sup>20</sup> Department of Foreign Affairs Annual Report 2007, <http://www.foreignaffairs.gov.ie>, <http://www.dfa.ie>

[http://www.dfa.ie/uploads/documents/Publications/08%2006%2004%20annual%20report%202007%20version%203%20\(3\).pdf](http://www.dfa.ie/uploads/documents/Publications/08%2006%2004%20annual%20report%202007%20version%203%20(3).pdf)

<sup>21</sup> <http://www.enterprise-ireland.com/Contact/OverSeasOffices.htm>

**Table 5: Denmark - Ministry of Foreign Affairs**<sup>22</sup>

Diplomatic Missions (2007)	87 Embassies and Consulates
Employees (2007)	2,277
Cost (2007)	1,757M DKK (€235.8M)

The Ministry handles and coordinates Denmark's official relations to foreign countries, a number of international organisations, including the EU, the UN and NATO; and in respect to the Nordic cooperation. It assist Danes who find themselves in difficult situations abroad and Danish business community in their export activities, internationalisation and other commercial activities abroad where there is a clear commercial interest for Denmark, as well as attracts foreign investment to Denmark. It handles and coordinates Denmark's trade policy and administers Danish development assistance, and it contributes to spreading awareness of Denmark and Danish culture.

**Table 6: Finland - Ministry of Foreign Affairs**<sup>23</sup>

Diplomatic Missions (2007)	97 offices
Employees (2007)	1,704
Cost (2007)	€368.5M

The Ministry's aims to achieve an influential Finland in the international community; an internal community generating security; a fair world; a successful Finland; and an open and service-oriented Ministry for Foreign Affairs. Activities include; foreign and security policy, trade policy, development policy and assistance, international cooperation, including Nordic cooperation, EU, human rights, crisis management, diplomacy and consular services. In addition to the figures shown above, the MFA also spent €579M on international development, and €22.5M on Cooperation with neighbouring areas of Murmansk, The Republic Karelia, Leningrad Oblast and St Petersburg.

**Table 7: Slovak Republic - Ministry of Foreign Affairs**<sup>24</sup>

Diplomatic Missions (2007)	89 diplomatic missions (approx. 50% of which are 'mini embassies' with only 1-2 diplomats)
Employees (2007)	1,100
Cost (2007)	3,187M SKK (approx. €94.4M)

The activities of the Ministry of Foreign Affairs include promoting the interests of the Slovak Republic and fulfilling responsibilities in the EU, NATO, UN and Visegrad 4 countries; supporting security, stability, and prosperity in the Western Balkans; engaging in the global protection of human rights; strengthening activities in the field of development cooperation and humanitarian aid; and providing consular services for the public and effectuate public diplomacy. In addition to the figures mentioned above, the Government of the Slovak republic established the Slovak Agency for International Development Cooperation and the overall volume of development assistance in the year 2007 amounted to 1,652 million SKK (approx. €48.9M)

<sup>22</sup> Ministry of Foreign Affairs of Denmark (2007) - Annual Report 2007

<sup>23</sup> <http://www.formin.fi>

<sup>24</sup> Ministry of Foreign Affairs of the Slovak Republic (2007) - Annual Report Ministry of Foreign Affairs of the Slovak Republic: Foreign Policy in 2007

**Table 8: New Zealand - Ministry of Foreign Affairs<sup>25</sup>**

Diplomatic Missions (2007)	59 Overseas Posts and Consulates General
Employees (2007)	1,151
Cost (2007)	NZ\$620M (€333.3M )

The Ministry's activities are focused on 5 strategic outcomes; Safeguarding New Zealand's security interests, supporting New Zealand's economy through international connections, promoting transboundary solutions and effective international rules, eliminating poverty and protecting rights of New Zealanders abroad. Activities include, consular and diplomatic services, advice on human rights issues, travel, and trade issues.

**Table 9: Other expenditure of the Ministry of Foreign Affairs and Trade vote**

	Costs: NZ\$M	Resources: €M
Subscriptions to International Organisations	46	24.7
Agency Services Business	13	7.0

The Ministry of Foreign Affairs and Trade also spent NZ\$434M (€233.3M) on Official Development Assistance.

## Consular and Diplomatic Resources

### Size of Permanent Representations to the EU

Except for the very smallest Member States, most Permanent Representations have about 80-100 staff for a medium size country (e.g. Ireland, Denmark, Finland etc), and typically 150-200 staff for the largest Member States.

### EU Arrangements

An EU citizen has the right to request the consular or diplomatic protection of any other EU Member State when in a non-EU country where his/her own Member State is not represented by a permanent consular post or diplomatic mission<sup>26</sup>.

### Co-location of Embassies

There are several examples of countries co-locating embassies in one building in order to reduce overhead costs and facilitate collaborative working. For example;

- UK embassies are co-located with those of EU Partners in Almaty, Ashkhabad, Dar es Salaam, Pyongyang, Quito, Reykjavik, Minsk and Chisinau. There are separate facilities within each shared building, so each country takes advantage of sharing the overhead costs while maintaining a formal separation in respect of the work that is done<sup>27</sup>.
- Estonia has one "joint mission" with Finland, in New Delhi (the Finnish embassy premises host the Estonian consulate)<sup>28</sup>, and has sent diplomats to the embassy of

<sup>25</sup> <http://www.mfat.govt.nz/>

<sup>26</sup> [http://ec.europa.eu/justice\\_home/fsj/citizenship/diplomatic/wai/fsj\\_citizenship\\_diplomatic\\_en.htm](http://ec.europa.eu/justice_home/fsj/citizenship/diplomatic/wai/fsj_citizenship_diplomatic_en.htm) . See also Article 20 (ex Article 17 TEU) from consolidated version of the Treaty on the Functioning of the European Union, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0001:01:EN:HTML>

<sup>27</sup> <http://www.parliament.the-stationery-office.com/pa/cm200607/cmgeneral/euro/070515/70515s01.htm>

<sup>28</sup> <http://www.finland.org.in/public/default.aspx?nodeid=34940&contentlan=2&culture=en-US>

the Netherlands in Tel Aviv and the Swedish embassy in Cairo<sup>29</sup>. In Tel Aviv and Cairo these diplomats are preparing to open Estonian Embassies.

### **Shared Consular Services- Canada and Australia**

In some places, Australian diplomatic officers provide consular services to Canadians, and vice versa. A memorandum of understanding details the nature of this arrangement for sharing consular services. Most but not all consular services can be provided under this arrangement (e.g. no assistance in extradition cases, or issuance of regular passports or visas)<sup>30</sup>.

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<sup>29</sup>[http://ec.europa.eu/justice\\_home/news/consulting\\_public/consular\\_protection/contributions/contribution\\_estonia\\_en.pdf](http://ec.europa.eu/justice_home/news/consulting_public/consular_protection/contributions/contribution_estonia_en.pdf)

<sup>30</sup> [http://www.voyage.gc.ca/laws\\_lois/australia-canada-australie-eng.asp](http://www.voyage.gc.ca/laws_lois/australia-canada-australie-eng.asp)

# Annex B – Estimating Scotland’s Contribution to the EU Budget

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This annex outlines how the European Union (EU) Budget is funded and expenditure assigned. It also provides estimates of Scotland’s contribution to the EU Budget, and the revenues received.

## 1. Background

In 2007 the EU Budget amounted to nearly €118 billion, covering the period 1<sup>st</sup> January to 31<sup>st</sup> December<sup>31</sup>.

The EU Budget supports actions and projects in policy areas where EU countries have agreed to act at union level. Almost 80 per cent of EU funds, including the Common Agricultural Policy (CAP) and EU Social Funds, are administered by Member State Governments. The European Commission (EC) also issues grants and procurement contracts, in a number of areas including research policy, transport and energy policy to independent organisations<sup>32</sup>. Expenditure is also allocated directly to both Member States and non-EU countries.

If Scotland became an independent member of the EU then, in common with all other member states, it would commit resources to the EU Budget and receive entitled resources from the EU.

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<sup>31</sup> The ‘rule of equilibrium’ governs the EU Budget and ensures that budgetary revenue must equal expenditure. In practice, the outcome for a given year may yield a surplus or a deficit. An adjustment is then made to the budget in the subsequent year to compensate.

<sup>32</sup> Expenditure in the private sector is allocated to the country in which the main recipient resides. However, some private sector organisations work across EU borders and this makes regional classification difficult. A comprehensive list of all private organisations in receipt of EU funds is available through the Financial Transparency System: [http://ec.europa.eu/beneficiaries/fts/index\\_en.htm](http://ec.europa.eu/beneficiaries/fts/index_en.htm)

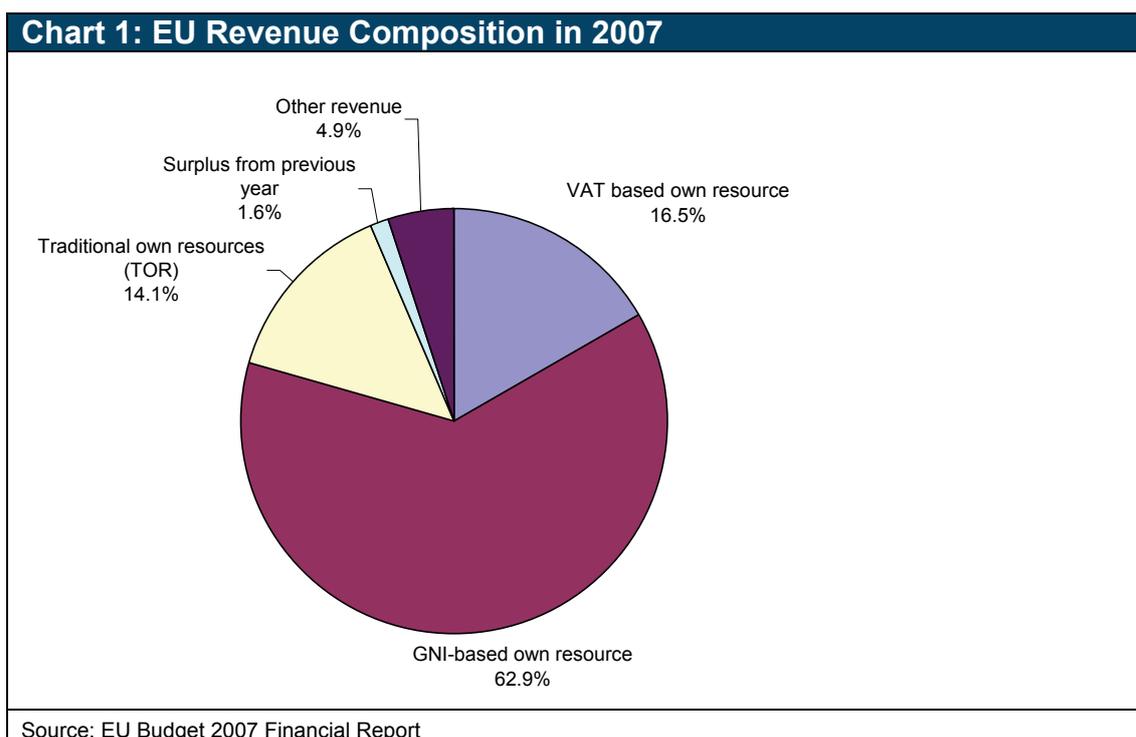
## 2. Funding the EU Budget

The EU Budget is funded through 'own resource' revenue alongside other contributions including surpluses from previous years and other smaller sources of revenue. In 2007, nearly 94 per cent of EU revenue comprised of 'own resource' funding. 'Own resources' are revenues which are automatically transferred to the EU from Member States for the purposes of financing the EU Budget and do not require any subsequent action by national governments. Currently, the total amount of 'own resources' which can accrue to the EU Budget is capped at 1.24 per cent of the sum of all Member States gross national income (GNI).

There are three components to own resource funding. These are:

- GNI-based own resource;
- VAT-based own resource; and
- Traditional own resources (TOR).

In the early years of the EU, TOR accounted for the largest share of revenues. However as highlighted in Chart 1, GNI-based own resource funding now accounts for the largest share, 62.9 per cent of all EU revenue in 2007. The mechanism used to determine each Member State's contribution to own resource funding is set out below<sup>33</sup>.



<sup>33</sup> Information regarding own resource funding, including call rates, for 2007 is taken from the Official Journal of the European Union, Council Decision on the system of the European Communities' own resources, 2007/436/EC, Euratom of 7 June 2007.

### GNI-based own resource

In 2007, each Member State made a contribution worth 0.5909 per cent of their GNI to the EU Budget. This is the last source of revenue received by the EU and the final percentage is adjusted each year, within predefined limits, to obtain the agreed budget.

The UK receives a rebate against its GNI contribution which is funded by all other member states. In addition, during the period 2007 to 2013, the Netherlands and Sweden will both receive gross reductions in their annual GNI-based contributions (€605 million and €150 million, in 2004 prices, respectively) to reduce the disparities in net contributions between Member States<sup>34</sup>.

### VAT-based own resource

The second largest source of revenue are VAT-based own source revenues. The VAT-based own resource is not directly related to VAT receipts in each Member State. As VAT rates and exemptions vary between countries, a formula is used to create a harmonised VAT base to represent the estimated value of all goods and services subject to VAT in each Member State on a consistent basis. The EU then receives a proportion of this tax base – the ‘call rate’.<sup>35,36</sup> The VAT call rate is currently set at 0.3 per cent for all Member States except Austria, Germany, the Netherlands and Sweden which have call rates of 0.225 per cent, 0.15 per cent, 0.1 per cent and 0.1 per cent respectively. This is to take into account the contribution these countries make to the UK correction (rebate).

The VAT base to which the call rate is applied is currently capped at 50 per cent of each Member State’s total GNI. This is to ensure that less-prosperous Member States do not pay excessively relative to their economic capacity. In 2007, the 50 per cent ‘capping’ was applied to 13 Member States (Bulgaria, Czech Republic, Estonia, Ireland, Greece, Spain, Cyprus, Latvia, Luxembourg, Malta, Poland, Portugal and Slovenia).

### Traditional own resources (TOR)

Traditional own resources (TOR) are received from agriculture duties and customs duties levied on imports of agricultural and non-agriculture products from non-EU countries. TOR also includes the sugar levy. Such tax revenues traditionally contributed the largest share of financial resources to the EU. TOR resources are collected by Member States but accrue directly to the EU Budget, with Member States retaining 25 per cent of their TOR to cover collection costs.

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<sup>34</sup> 2007/436/EC, Euratom of 7 June 2007

<sup>35</sup> A non-technical description of the methodology used to calculate the VAT call rate is available in HMT, European Community Finances Statement on the 2008 EC Budget and measures to counter fraud and financial mismanagement. [http://www.hm-treasury.gov.uk/int\\_eu\\_statefraud.htm](http://www.hm-treasury.gov.uk/int_eu_statefraud.htm)

<sup>36</sup> Technical detail of the methodology used to calculate the VAT call rate is available from : Council Regulation (EEC, Euratom) No 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax [Official Journal L 155 of 7.6.1989]. Note that derogations under the Sixth VAT directive are also applied when calculating the VAT call rate.

### UK Correction (UK rebate)

The UK correction mechanism (or 'rebate') was introduced in 1985. It was intended to correct the perceived imbalance between the United Kingdom's share of payments to the EU Budget and its share of EU expenditure – largely as a result of only a small amount of UK agricultural production qualifying for financial support. The mechanism has been modified on several occasions to compensate for changes in the system of EU Budgeting, but the basic principles remain the same. Currently the UK is reimbursed 66 per cent of its budgetary imbalance, the difference between its payments to the EU and the revenue it receives. In 2007 the UK's rebate was worth approximately €5 billion, 33 per cent of the UK's GNI and VAT contribution for this year<sup>37</sup>.

In December 2005, the UK agreed to increase its contribution to the EU Budget for the 2007-13 period to assist in the funding of EU enlargement. This reduction in the rebate cannot exceed €10.5 billion, in 2004 prices, for the period 2007-13<sup>38</sup>.

The UK rebate is financed by the other 26 Member States, based on their share of total EU GNI. Austria, Germany, the Netherlands and Sweden currently all have their contributions to UK rebate capped at a quarter of their normal share, a so-called 'rebate on the rebate'. The cost of this correction is then redistributed across the remaining 22 Member States.

### Member States Contribution to the EU Budget

Charts 2 and 3 below show how contributions, along with the adjustment for the UK rebate, are split across EU Member States.

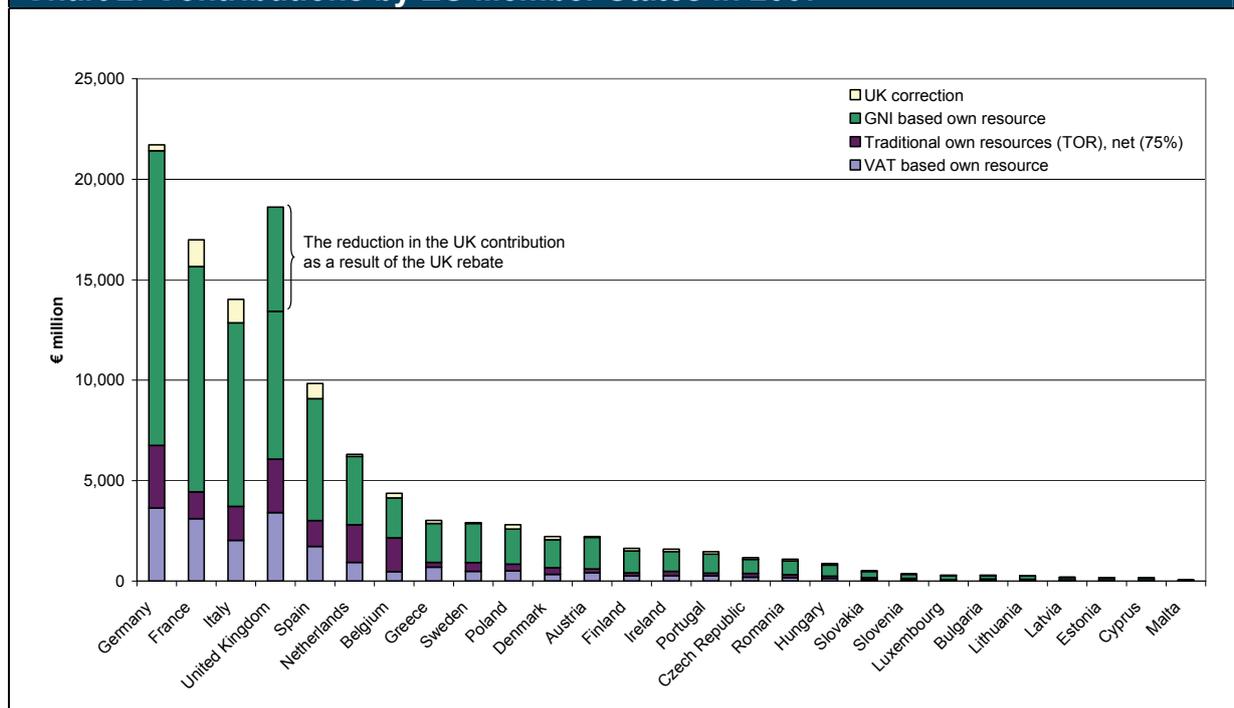
As the largest Member States, Germany, France, Italy and the UK make the largest contributions to the EU Budget. On a per capita basis Luxembourg makes the largest contribution to the EU followed by Belgium. After accounting for the rebate, the UK makes the 4<sup>th</sup> largest contribution to the EU and the 13<sup>th</sup> largest contribution on a per capita basis. As a result of the rebate, Spain and Portugal are the only members of the original EU15 who make a smaller, per capita, contribution than the UK to the EU Budget.

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<sup>37</sup> EU Budget 2007 Financial Report

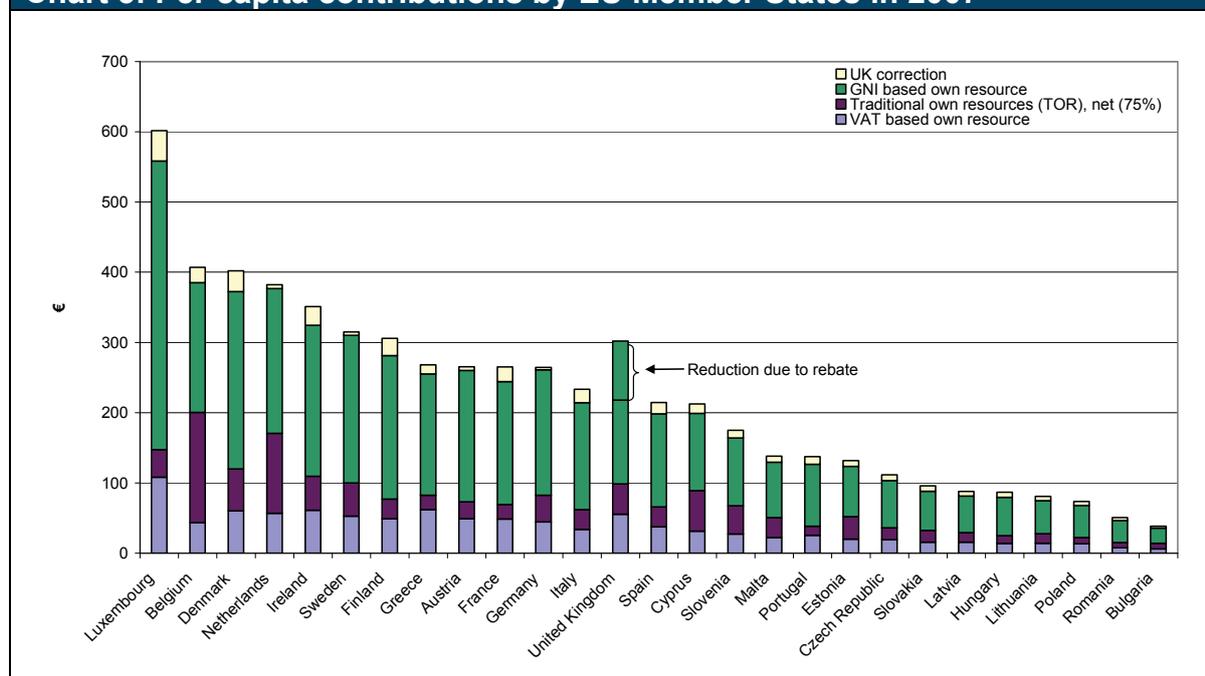
<sup>38</sup> 2007/436/EC, Euratom of 7 June 2007

Chart 2: Contributions by EU Member States in 2007



Source: EU Budget 2007 Financial Report

Chart 3: Per capita contributions by EU Member States in 2007



Source: EU Budget 2007 Financial Report and Eurostat

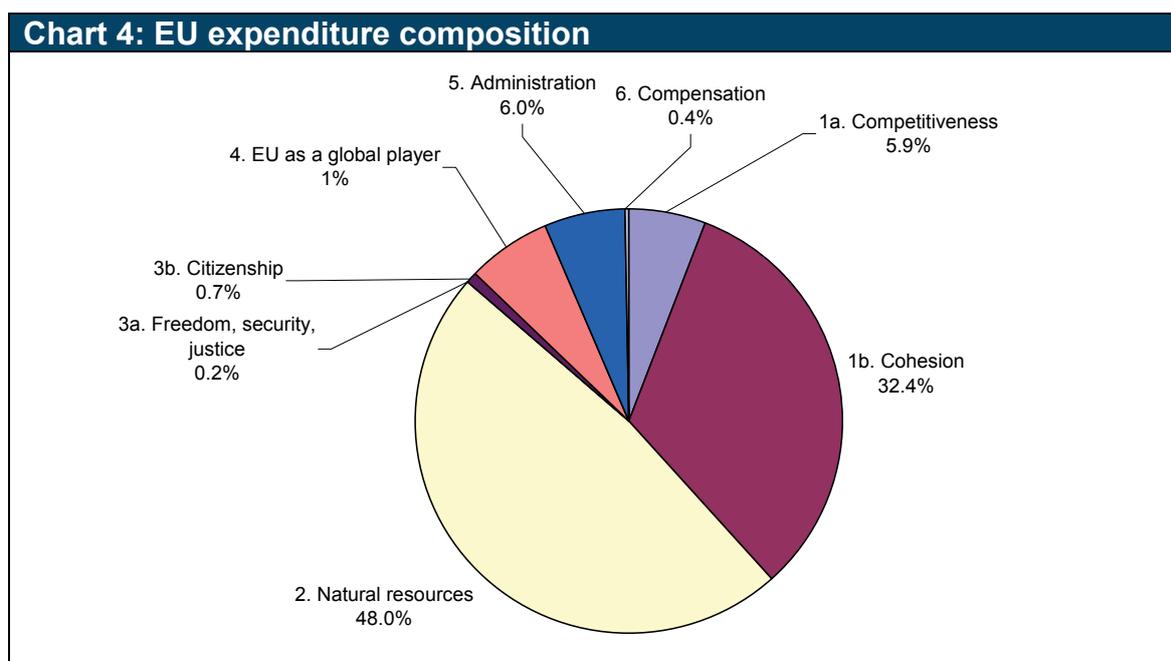
### 3. Main Sources of Financial Assistance from the EU

This section outlines how EU expenditure is allocated between different programmes and between Member States.

Allocation of EU expenditure is split into 6 categories:

1. Sustainable Growth;
  - a. Competitiveness
  - b. Cohesion
2. Preservation and management of natural resources;
3. Citizenship, freedom, security and justice;
  - a. Freedom, security, justice
  - b. Citizenship
4. The EU as a global player;
5. Administration; and
6. Compensation.

Chart 4 below illustrates how the EU Budget was spent between these programmes in 2007. In total, EU Budgetary expenditure was worth €114 billion during this year.

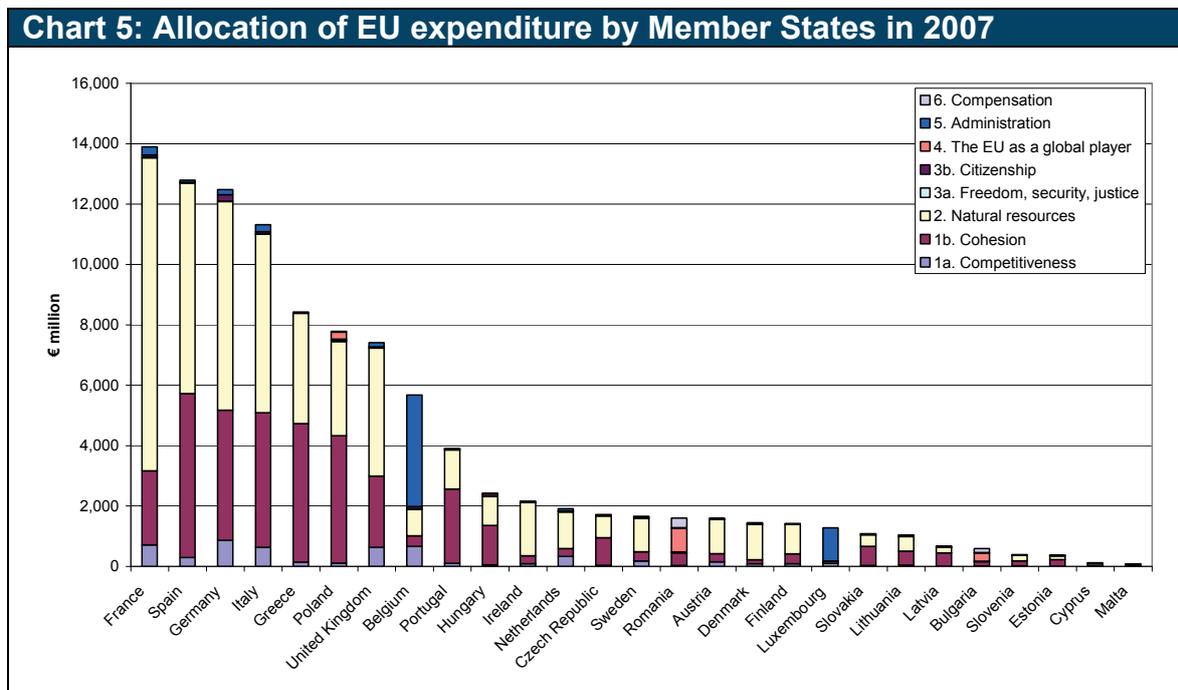


Source: EU Budget 2007 Financial Report

Expenditure under the Natural Resource and Cohesion programmes accounts for over 80 per cent of EU expenditure. The natural resources category, which accounts for 48 per cent of the total EU Budget, covers expenditure in relation to the Common Agricultural Policy (CAP), support for fishermen through the European Fisheries Fund (EFF), and the development and implementation of environmental policy and legislation. By far the largest expenditure in this category is CAP expenditure. The Cohesion programme covers expenditure through the EU Cohesion Fund, European Regional Development Fund (ERDF) and European Social Fund (ESF)<sup>39</sup>.

<sup>39</sup> A brief summary of the composition of all six funding streams can be found in the EU Budget 2007 Financial Report. Further information regarding the funding schemes can be found on the European Commissions website: <http://ec.europa.eu/>

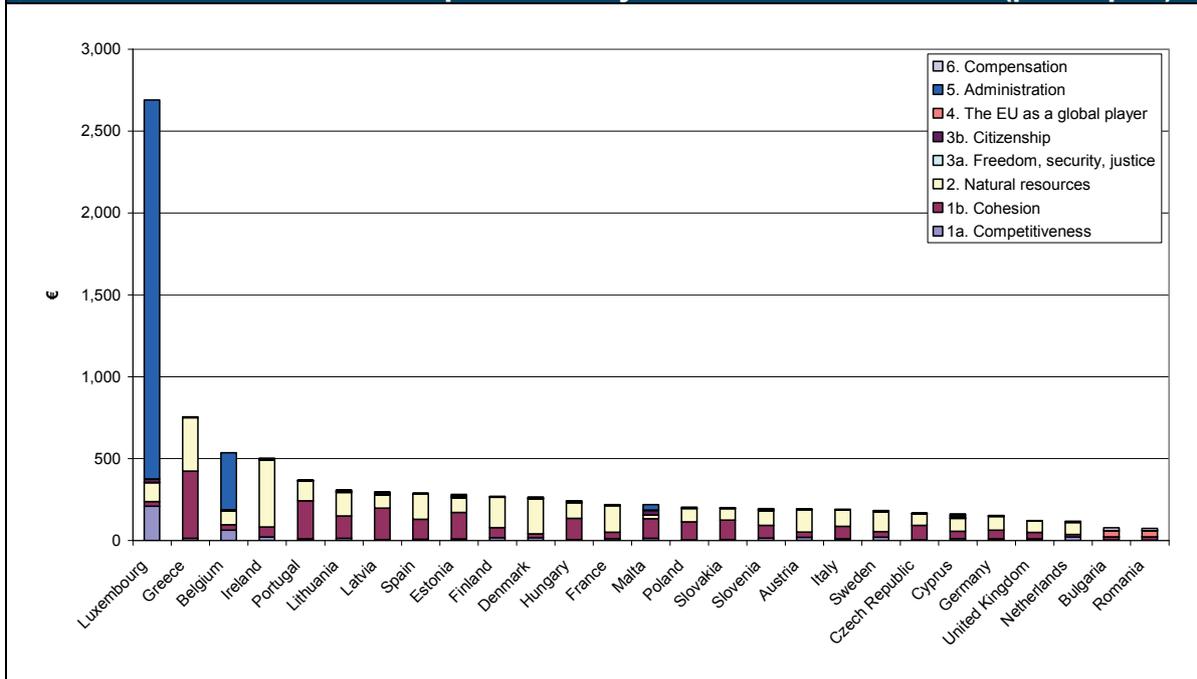
Charts 5 and 6 show the allocation of expenditure by Member States in 2007 in terms of both total finances received and finances received on a per capita basis. In 2007, the UK was ranked 7<sup>th</sup> in terms of total EU expenditures received, with France receiving the most. On a per capita basis the UK was ranked 24<sup>th</sup> in terms of total expenditures received, with the Netherlands being the only member of the original EU15 to receive less. The low per capita receipts received by Bulgaria and Romania reflects the phasing in of Structural and Cohesion Funds and agriculture payments after their accession in 2007<sup>40</sup>.



Source: EU Budget 2007 Financial Report

<sup>40</sup> Source EU Budget 2007 Financial Report and <http://ec.europa.eu/>

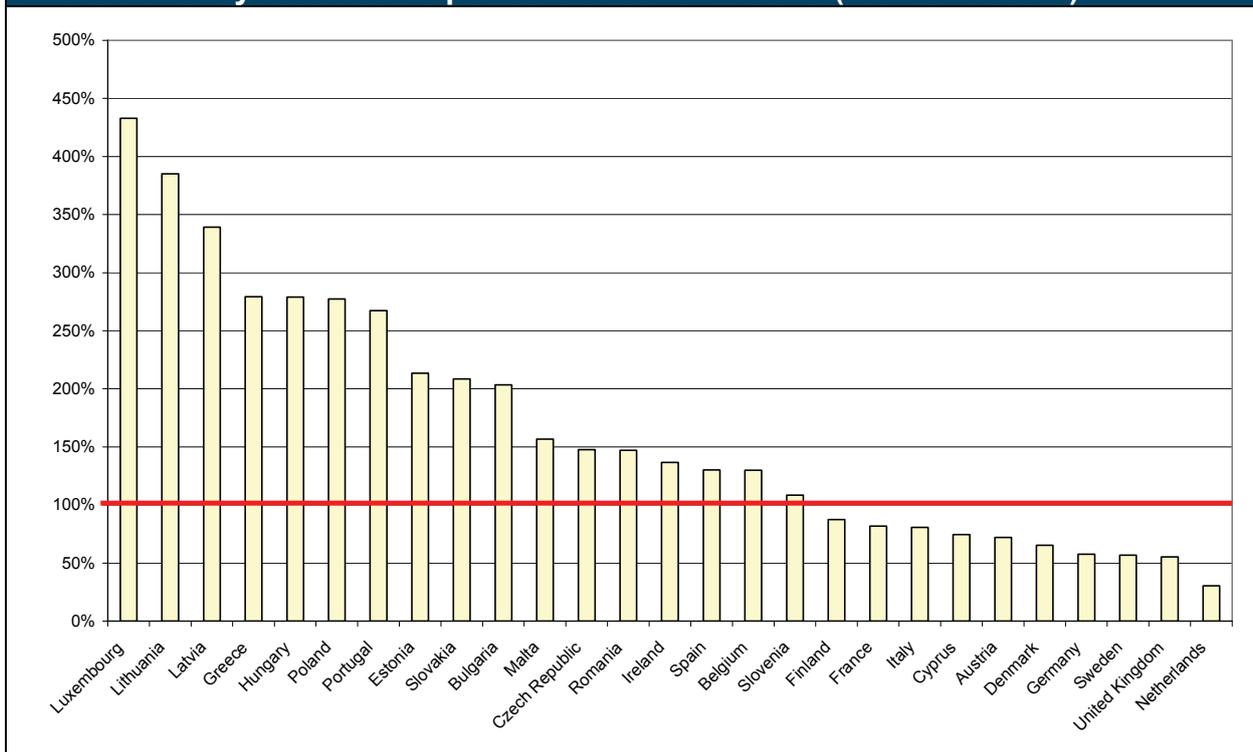
**Chart 6: Allocation of EU expenditure by Member States in 2007 (per capita)**



Source: EU Budget 2007 Financial Report and Eurostat

Chart 7 shows the ratio of finances received to contribution to the EU Budget for each Member State.<sup>41</sup> A value above 100 per cent implies that a country receives more from the EU in expenditure than it pays in contributions. The chart shows that for the UK, the money received from the EU was equal to approximately 55 per cent of total contributions. This is the second lowest ratio in the EU, with only the Netherlands paying more in contributions than they receive in EU receipts.

<sup>41</sup> These figures include the adjustment for the UK rebate.

**Chart 7: Money received as per cent of contributions (with UK rebate)**

Source: EU Budget 2007 Financial Report

#### 4. Situation in other small EU countries

Table 1 below highlights the contributions to and the revenues received from the EU Budget in EU countries with either similar populations and/or GDP as Scotland. In 2007-08, Scotland's population was approximately 5.1 million and Government Expenditure and Revenue Scotland (GERS) estimated that Scotland's GDP is between €166 billion (£114 billion) and €206 billion (£142 billion) depending on the treatment of North Sea GDP.<sup>42,43,44</sup>

Ireland, Finland and Denmark all have broadly similar populations and GDP to Scotland but their net contributions (the difference between what they contribute to and what they receive in EU expenditure) varies. For example, Ireland is a net recipient, with a net contribution of -€580.3 million, Finland and Denmark make net contributions of +€206.0 million and +€769.8 million respectively.

However going forward, financial support for Ireland is likely to fall considerably as resources are diverted toward less prosperous regions of Europe (and particularly the relatively new accession countries).

**Table 1: Contributions and receipts from the EU Budget for small EU Countries in 2007 (€ million)**

Country	Ireland	Finland	Slovakia	Denmark	Bulgaria	Austria
Population (millions)	4.3	5.3	5.4	5.5	7.7	8.3
GDP (€ million)	190,603	179,659	54,857	226,544	28,899	270,837
Contribution to the EU Budget – Total own resources (€ million)	1,586.4	1,629.4	519.2	2,219.0	290.8	2,218.1
Revenue received from the EU Budget – Total Expenditure (€ million)	2,166.7	1,423.4	1,082.6	1,449.2	591.5	1,598.4
<b>Net Contribution (Total Own Resource – Total Expenditure)</b>	<b>-580.3</b>	<b>206.0</b>	<b>-563.4</b>	<b>769.8</b>	<b>-300.7</b>	<b>619.7</b>

Source: EU Budget 2007 Financial Report and Eurostat

Note: A negative net contribution indicates that a country receives more from the EU than it contributes.

<sup>42</sup> Government Expenditure and Revenue Scotland (GERS) is a National Statistics publication which estimates a set of public sector accounts for Scotland. It is available from: <http://www.scotland.gov.uk/Publications/2009/06/18101733/0>

<sup>43</sup> The exchange rates used through out this annex are based on the euro to sterling foreign exchange reference rates published on the European Central Bank's website [www.ecb.int/stats/exchange/eurofxref/html/index.en.html](http://www.ecb.int/stats/exchange/eurofxref/html/index.en.html)

<sup>44</sup> Chapter 5 of Government Expenditure and Revenue Scotland (GERS) discusses the methodology used in relation to North Sea Revenues.

## 5. Scotland's illustrative contribution to the EU Budget

Under the current fiscal arrangements the Scottish Government does not directly contribute to the EU Budget. All payments currently made by Scottish taxpayers are channelled through the overall UK tax system.

The UK fiscal framework does not provide separate detailed intra-country or intra-regional fiscal accounts. An analysis of Scotland's contribution to the EU Budget has therefore to be estimated. There are multiple ways to estimate Scotland's current share of the UK contribution to the EU Budget. The examples below are illustrative and not official statistics.

In the analysis below, Scotland's estimated share of the UK GNI contribution is calculated by taking the ratio of Scottish GDP to UK GDP, and applying this to the UK's GNI contribution to the EU. Scotland's estimated GNI contribution, based upon the relative share of GDP, varies depending on the treatment of North Sea GDP. In the analysis below and consistent with the GERS analysis, three estimates are presented based upon three different treatments of the North Sea, (i) an estimate excluding North Sea GDP, (ii) an estimate including a per capita share of North Sea GDP and (iii) an estimate including an illustrative geographical share of North Sea GDP.

The methodologies used to estimate VAT own resource, TOR and the UK rebate are consistent with those used in GERS.<sup>45</sup> Scotland's share of the VAT contribution is estimated based on Scotland's share of UK household VAT expenditure from the Expenditure and Food Survey. The same proportions were applied to achieve Scotland's TOR payments. Scotland's share of the UK rebate is estimated by taking a per capita share of the UK rebate. The source for all UK data on EU transactions is Public Expenditure Statistical Analyses (PESA)<sup>46</sup>.

Based on the above methodology, it is estimated Scotland would have made a positive contribution to the EU of approximately €1.6 billion before the rebate, and €1.1 billion after the rebate, when North Sea GDP is excluded. When a population share of North Sea GDP is included Scotland is estimated to make a net positive contribution to the EU of approximately €1.6 billion before the rebate, and €1.1 billion after the rebate. When an illustrative geographical share of North Sea GDP is included in the analysis Scotland is estimated to make a net positive contribution to the EU of approximately. €1.8 billion before the rebate, and €1.4 billion after the rebate.

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<sup>45</sup> As the published GERS analysis is conducted using financial years whilst the EU Budget is produced on a calendar year basis, an estimate of calendar year figures for have been made.

<sup>46</sup> The most recent Public Expenditure Statistical Analysis (PESA) publication is available from HM Treasury: [http://www.hm-treasury.gov.uk/pespub\\_index.htm](http://www.hm-treasury.gov.uk/pespub_index.htm)

<b>Table 2: Scotland's Illustrative Contribution to the EU Budget in 2007</b>		
	£ million	€ million
<b>GNI</b>		
GDP share (excluding North Sea GDP)	726	1,061
GDP share (including per capita share of North Sea GDP)	743	1,085
GDP share (including geographical share of North Sea GDP)	896	1,310
VAT	212	310
TOR (net of collection costs)	157	229
<b>Total – before rebate</b>		
<b>GDP share (excluding North Sea GDP)</b>	<b>1,095</b>	<b>1,600</b>
<b>GDP share (including per capita share of North Sea GDP)</b>	<b>1,111</b>	<b>1,624</b>
<b>GDP share (including geographical share of North Sea GDP)</b>	<b>1,265</b>	<b>1,849</b>
Rebate	-328	-479
<b>Total – after rebate</b>		
<b>GDP share (excluding North Sea GDP)</b>	<b>767</b>	<b>1,121</b>
<b>GDP share (including per capita share of North Sea GDP)</b>	<b>784</b>	<b>1,145</b>
<b>GDP share (including geographical share of North Sea GDP)</b>	<b>937</b>	<b>1,370</b>

Source: PESA and Scottish Government Calculations

Notes: Average annual exchange rate for 2007 is used to convert to euros

## 6. Scotland's illustrative receipts from the EU Budget

Section 3 of this annex examined the different expenditures of the EU. As discussed, there are four elements which account for the majority of EU expenditure. These are the Cohesion Fund, European Regional Development Fund (ERDF), European Social Fund (ESF) and the Common Agricultural Policy (CAP). Table 4 groups the Eligibility for the Structural and Cohesion Funds under the three objectives of the EU cohesion policy<sup>47</sup>. This has been used to estimate Scotland's current eligibility for the main EU funds. Scotland also benefits from funding from EU programmes which are allocated on an industry basis or to specific organisations rather than to the country as a whole. These are not reflected in Table 4.

GERS provides estimates of Scottish receipts from the EU using actual data where possible and estimates in all other cases. Again these figures are not official statistics, and are therefore illustrative. Table 3 highlights that the largest share of this funding, nearly €550 million, was received through the Common Agriculture Policy (CAP). Both non-CAP and CAP EU Department Expenditure Limit (DEL) receipts are easily identifiable to a particular location and reflect expenditure on these items specifically for Scotland based on the actual receipts reported in the Scottish Government's Consolidated Accounts.

<b>Table 3: Scotland's Illustrative Receipts from the EU Budget in 2007</b>		
	£ million	€ million
EU DEL receipts (non-CAP)	212	310
EU DEL receipt (CAP)	375	548
<b>Total</b>	<b>587</b>	<b>858</b>

Source: PESA

Note: Average annual exchange rate for 2007 is used to convert to euros

<sup>47</sup>For further information regarding the EU Cohesion Policy please see [http://ec.europa.eu/regional\\_policy/index\\_en.htm](http://ec.europa.eu/regional_policy/index_en.htm)

**Table 4: Eligibility Criteria for Structural Funds and CAP in 2007-13**

<b>Objective</b>		<b>Fund</b>	<b>Main eligibility criteria<sup>48</sup></b>	<b>Current Entitlement</b>
Convergence objective	Cohesion Fund		To be eligible for such funding, a Member State has to have GNI per capita of less than 90 per cent of the average GNI of the EU-25, based on the Community figures for the period 2001-2003.	Scotland is currently not eligible for this funding.
			Transitional support for Member States that would have remained eligible for this fund if the threshold had remained at 90 per cent of the EU15 GNI per head average and not the EU25 is also available.	
		ERDF and ESF	NUTS2 regions with GDP per head less than 75 of the EU average are eligible for this funding.	Scotland is currently not eligible for this funding.
			Statistical affect support for NUTS2 regions that would have remained eligible for this fund if the threshold had remained at 75 per cent of the EU15 GNI per head average and not the EU25 is also available.	The Highlands and Islands of Scotland are currently eligible for statistical affect support.
Regional Competitiveness and Employment Objective		ERDF and ESF	Transitional support is given to NUTS2 regions which were covered in the 2000-2006 Objective 1 region status (comparable to the Convergence objective) but whose GDP per head now exceeds 75% of the EU15 GDP per head average.	Scotland is currently not eligible for funding under this heading.
European Territorial Cooperation Objective		ERDF	NUTS2 regions not covered by the Convergence objective or transitional support.	Scotland currently receives funding under this heading.
			Cross border cooperation: NUTS3 regions that have maritime, national or EU borders	Scotland currently receives funding under this heading.
			Trans-national cooperation: All European NUTS3 regions are eligible but the Commission has identified 13 cooperation zones.	Scotland currently receives funding under this heading.
			Inter-regional cooperation and setting up networks and exchanges of experience: All European NUTS3 regions are eligible.	Scotland currently receives funding under this heading.
Common Agricultural Policy (CAP)			There are two pillars under which CAP funding is provided: <ul style="list-style-type: none"> <li>• Pillar I – Direct Payments and Market Support</li> <li>• Pillar II – Rural Development:</li> </ul>	Scotland currently receives CAP funding.

<sup>48</sup> Sources: Nineteenth Report (2007-08), House of Lords Select Committee on European Union: The Future of EU Regional Policy, European Commission: Cohesion Policy, 2007-13 Commentaries and Official Texts Luxembourg, Office for the Official Publications of European Communities. Commission Communication *The Growth and Jobs Strategy and the Reform of European Cohesion Policy*. *Fourth Progress Report on Cohesion and EU Budget 2007* Financial Report

Using the data in Tables 2 and 3, it is possible to estimate Scotland's contribution to the EU in 2007.

It should be noted that the figures presented here are estimates, derived from a number of assumptions, and should be viewed accordingly.

Depending on the treatment of North Sea GDP in the analysis, Scotland is estimated to have made an illustrative contribution of between €742 and €991 million before accounting for the UK rebate in 2007. When a population share of the UK rebate is included, Scotland is estimated to have made an illustrative contribution to the EU of between €263 million and €512 million in 2007.<sup>49</sup>

**Table 5: Scotland's Illustrative Contribution to the EU in 2007 (£million)**

	Payments to the EU Budget		Receipts from the EU	Contribution	
	before rebate	after rebate		before rebate	after rebate
Excluding North Sea GDP	1,095	767	587	508	180
Including a per capita share of North Sea GDP	1,111	784	587	524	197
Including a geographical share of North Sea GDP	1,265	937	587	678	350

Source: PESA and Scottish Government Calculations

**Table 6: Scotland's Illustrative Contribution to the EU in 2007 (€ million)**

	Payments to the EU Budget		Receipts from the EU	Contribution	
	before rebate	after rebate		before rebate	after rebate
Excluding North Sea GDP	1,600	1,121	858	742	263
Including a per capita share of North Sea GDP	1,624	1,145	858	766	287
Including a geographical share of North Sea GDP	1,849	1,370	858	991	512

Note: Average annual exchange rate for 2007 is used to convert to euros

<sup>49</sup>It should be noted that the figures presented in Table 5 are not comparable with the EU transactions element highlighted in GERS. Box 6.5 in GERS 2007-08 describes how transfers to and from the EU are treated in GERS.

### 7. Impact of exchange rate fluctuations

In 1999, the euro became the official currency for 11 of the 15 EU Member States. Since then, 16 of the now expanded 27 Member EU have adopted the euro. A number of other EU members are expected to join the euro in the near future once they have met the entry requirements. Both Denmark and the UK have agreed an opt-out clause exempting them from participation in the single currency.

Contributions to the EU Budget are made in a country's national currency whilst receipts from the EU are paid in euros. Therefore, for countries such as Denmark and the UK, who have not adopted the euro, their exchange rate with the euro affects the final amount they contribute to, and receive from, the EU Budget.

UK VAT-based and GNI-based contributions to the EU are converted for the whole budget year using the sterling/euro exchange rate on the last working day prior to the start of the budget year. Member States pay only what they collect in TOR which is then converted at the rate when they are paid to the EU.<sup>50</sup> Therefore, as own resource funding is related to either actual receipts (in relation to TOR), a proportion of the VAT base or GNI, exchange rate fluctuations do not affect the amount paid in sterling. However, the amount received by the EU in own resource funding will be affected by exchange rate fluctuations.

Receipts from the EU are paid in euros and converted to sterling using the exchange rate at the point in time when payment is made. Therefore, the value of the receipts in sterling varies depending on the exchange rate at time of payment.

For instance, there are two dates where conversion of Structural Funds take place. The first is when the Scottish Government requests payment (in euros) from the EC to reimburse approved claims from project sponsors. The exchange rate used is the exchange rate at the time the project sponsors put forward their claims to the Scottish Government. The second is the date on which the EC actually transfers the funds to the Scottish Government. These lags mean that differences can emerge between expenditure commitments and receipts of funds.

The recent depreciation of sterling against the euro has therefore increased the sterling denominated value of the funding received by Scotland through Structural Funds. For the 2007-13 programmes, Scotland has been allocated approximately €820 million from the European Regional Development Fund and the European Social Fund. At the time of the formal launch of the programmes, the exchange rate was £1 to €1.4343 (November 2007 average)<sup>51</sup>, implying that the equivalent sterling value was £572 million. However, using the June 2009 average exchange rate (£1 to €1.1494), would imply that Scotland's total allocation of €820 million translates into £713 million. On this basis, other things being equal, sterling's depreciation over this period suggests that the nominal value of the 2007-13 programmes has increased by £141 million.<sup>52</sup>

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<sup>50</sup> Technical annex 1 of HM Treasury's publication 'Statement on the 2008 EC Budget and Measures to Counter Fraud and Financial Mismanagement' contains further information regarding the exchange rates used to calculate the value of own resource elements.

<sup>51</sup> The monthly accounting rate of the euro is the exchange rate used for these calculations  
[http://ec.europa.eu/budget/inforeuro/index.cfm?fuseaction=currency\\_historique&currency=72&Language=en](http://ec.europa.eu/budget/inforeuro/index.cfm?fuseaction=currency_historique&currency=72&Language=en)

<sup>52</sup> These figures should be used with caution as using exchange rates which occur in a given month may over, or under, estimate the final amount received which will depend on the exchange rate at the time of payment from the EC.



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