

# Scotland's Place in the World

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*Remarks as prepared for delivery.*

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## Danny Alexander

Good evening everyone.

I am delighted to be here at Chatham House, The Royal Institute of International Affairs.

Over your 94-year history, you have deservedly gained a reputation as one of the world's leading think-tanks for international relations and global governance issues.

Your staff and your membership play a hugely important role, not only through your rigorous analysis and research, but also by encouraging the healthy exchange of views and the promotion of new ideas.

As a cabinet minister, and as chief secretary to the Treasury, it is always incredibly valuable to discuss important policy issues with expert groups like you.

Chatham House is the global hub for new thinking on international affairs.

As a liberal democrat, I am actually a huge believer in the importance of international cooperation.

Liberalism is internationalism.

Nationalism is its antithesis.

## Referendum

Now.

It won't have escaped your attention that a referendum is soon to take place in Scotland.

There are just over two weeks to go until the vote on 18 September.

For the people of Scotland, this is the most important vote in our lifetimes.

It is arguably the most important vote in the history of the United Kingdom.

And it comes after almost two years of debate, research and campaigning from both sides.

As part of the UK, there will be more jobs and stronger growth.

Public services will be more affordable.

The currency too – you can't have missed that one! – for only as part of the UK will we in Scotland get to use the pound as our currency, with all of the institutions that make the pound successful.

Staying in the UK means cheaper household bills and safer pensions.

And within the UK, Scottish people can have the best of both worlds, with responsibility in Holyrood for the issues that matter the most in Scotland, but as part of a bigger political system across the whole of the United Kingdom.

Each and every one of those issues has got plenty of air-time.

But there are other issues which have simply not been discussed as much.

One of those relates to the implications of independence for Scotland's place in the world.

Which, I must admit, I find rather curious.

Because, as I will explain tonight, within the UK Scotland has been hugely influential on the global stage.

As part of the UK, we are one of the 'big four' EU members and can influence all the key decisions.

As part of the UK, we have greater global influence and a seat at the top table.

As part of the UK, we can use our global reach to support Scottish people and businesses.

All of that means that, on these key international issues, the implications for Scotland if we are to become a separate state, will be very significant indeed.

#### **EU membership**

First of all, there's the question about Scotland's membership of the European Union.

As a separate state, Scotland would have to apply to join the EU.

That would mean negotiating terms with all 28 EU member states.

As you can well imagine – that would be a very complex and lengthy process.

Don't take my word for it.

The outgoing president of the European Commission, Jose Manuel Barroso, in February of this year made it abundantly clear when he said – and I quote:

'It will extremely difficult to get the approval of all the other member states to have a new member coming from one member state.'

The Spanish Prime Minister Mariano Rajoy was equally clear last year when he said, and again I quote:

'It is very clear to me, as it is for everyone, that a region that obtains independence which is part of a nation state of the EU will stay outside the EU.'

Let's leave to one side the fact that a prolonged period of entry negotiation would generate significant levels of uncertainty, which would have a terrible impact on economic confidence and business activity, just as the economic recovery is starting to take off.

The truth is that, even if Scotland managed to get into the EU, it would be on significantly worse terms than those currently enjoyed by the UK today.

Let me set out why.

The UK's membership of the EU doesn't come for free.

We contribute to the EU budget, like every member state.

As you know, those combined contributions are then distributed throughout the EU, based on seven-year budget agreements.

In terms of paying in, every nation contributes according to their national income.

And in terms of receiving money back, there are two main programmes: Structural and Cohesion Funds; and the Common Agricultural Policy or CAP.

Both of those funds have had a significant impact in Scotland.

In Glasgow the Structural Funds have helped turn old buildings like the town hall into new cultural and digital projects.

In the Highlands I've seen first-hand how the Structural Funds have had an even bigger impact.

But on top of those two funds, the UK also receives a unique rebate on our contributions.

Looking across these three sources of funding, the bottom line is that outside of the UK, Scotland would pay more and get less.

On Structural Funds, Scotland would lose out on around £200m over this seven year spending round.

But the most important loss for Scotland comes from the rebate.

The UK rebate is worth over £3bn a year.

It's not an annual lump sum that can be divided.

If Scotland voted for separation, the rebate would go to the continuing UK, not Scotland.

And it would be adjusted for the size of the continuing UK economy and share of UK receipts.

There would be no 'Scottish share' left.

An independent Scotland, if it managed to get into the EU, would find itself in the bizarre position of having to contribute some €640 million over seven years to the UK's rebate, just like every other member state does.

So rather than getting a rebate from the EU, Scotland would be giving a rebate to the UK!

And that is not all.

Scotland would also not get all of the other opt-outs that the UK currently enjoys, because all new EU member states must commit to joining both the euro and Schengen, which means that unlike the UK, Scotland would not have control over their currency, control over their borders or control over their immigration policy.

## Currency

I mentioned the issue of the currency.

The nationalists say that they will be able to continue using the UK pound even if they become a separate state.

Because, even if the rest of the UK doesn't agree to a currency union, they have said that Scotland would use the pound without a formal agreement. This is an arrangement known as 'sterlingization', which would mean Scotland would not have a central bank to set interest rates or act as a lender of last resort.

This is not only a bonkers idea which flies in the face of any reasonable notion of what independence means and which would impose costs and risks on people and businesses in Scotland, it is also incompatible with Scotland's smooth re-entry into the EU.

I will tell you why.

Today I am publishing an exchange of letters between myself and former European Commissioner Olli Rehn, relating to the issue of Scottish independence.

Until a few weeks ago he was the man at the EU Commission in charge of economic and monetary affairs, including the euro.

He's very clear on one point.

And I quote: 'As to the question whether "sterlingization" were compatible with EU Membership, the answer is that this would simply not be possible.'

No country has ever joined the EU while using only the currency of another country at the point of accession.

As Rehn says in his letter, in 2008 the then Icelandic government requested the possibility of unilateral 'euro-ization' of the krona to stabilize its monetary conditions and as a shortcut to EU membership.

The Commission's response?

They flatly rejected it as against the treaty.

This was exactly the same case for Montenegro in 2007 which was required to create its own monetary authority as part of the conditions of the EU.

There is a strong assumption in the EU treaties that every member state will have its own central bank.

But under sterlingization Scotland would not have a central bank or control over its monetary policy.

So let's recap on the facts.

First, there will not be a currency union in the event of a 'yes' vote.

That would expose the rest of the UK to risks it couldn't control, and would leave Scotland without the tools to steer its economy.

One of Alex Salmond's 3 Plans Bs is 'sterlingization' – borrowing the pound, but without any access to the support or stability provided by the Bank of England.

Today we learn that that option is incompatible with EU membership.

So an independent Scotland would face a simple choice – using the pound like Panama uses the dollar, or joining the EU.

It can't have both.

This shows yet again the nationalists failure to put forward a credible currency plan and the dangers it poses to the people of Scotland.

### **The UK's future within the EU**

It is just one of the many inconsistencies and contradictions inherent in the Scottish nationalists' case.

Another one is this.

Faced with growing scepticism about Europe, the nationalists want put up a border with the UK – an EU member state – so that they can secure their future within the EU.

That's the logic of the madhouse!

To me it is clear that there is no real threat of the UK leaving the European Union.

I suppose, it won't surprise anyone to hear that I am a strong supporter of the EU.

But in fact, all three main political parties – Liberal Democrats, Conservatives and Labour – are in favour of continued EU membership.

Even if there is a referendum on the UK's EU membership, I believe that the economic case is so powerful – across investment, trade and jobs – that people will vote to stay in.

I don't think the EU is perfect. I think it's far from it. But I think we're at our best when we're at its centre.

I want Scotland to be part of that strong UK presence within the EU.

So that we can retain the loud and persuasive voice that the UK rightly commands across Europe.

### **Global influence**

But our EU membership is just one example.

There are many other international organizations where an independent Scotland would have much diminished voice.

What about – say – the United Nations?

As part of the UK, Scottish views – Scottish values – are represented by one of the founder members, with a permanent seat on the UN Security Council.

And while an independent Scotland could eventually join the family of the United Nations, it would not have that permanent Security Council seat, and the influence it brings.

You at Chatham House know better than most how crucially important the UK's permanent seat at the UN Security Council really is, and how it has helped deliver peacekeeping missions across every continent over the decades.

And that's before we take into account the UN's specialized agencies, like UNESCO or the World Health Organization.

I could set out similar arguments about many other international organizations.

The G7. The G8 and the G20.

The IMF and the World Bank.

NATO and the Commonwealth.

In each one of these institutions the UK is able to punch above its weight.

Because of our historic role in world affairs we are able to use our power to enhance our country's security and prosperity.

We are able to promote the values that are dear to us, like freedom, democracy, the rule of law, and respect for human rights.

And we are able to help end poverty and save lives during humanitarian crises.

In short, as the UK we are able to make the world a better place.

The principles underpinning that approach are quintessentially British – and Scottish too.

As part of the UK, Scotland has played a crucial part in some of the most important world events in recent years.

The G8 summit in 2005, held in Gleneagles in Scotland, when the UK led the work to cancel the debt of the world's most highly indebted poor countries.

The G20 summit in London in 2009, when a Scottish prime minister led the world in agreeing a plan to boost the global economy at the height of the world financial crisis.

And last year the UK coalition government led the G8 in agreeing international standards to improve the taxation of multinational corporations.

But to make a difference, history and intent are not enough.

In international affairs, size does matter.

As a bigger economy the UK can do so much more than Scotland alone.

For example, the UK is the second largest aid donor in the world.

We are also the first G7 country to have met the target of spending 0.7% of Gross National Income on overseas aid. One of my proudest achievements in the coalition government.

The UK has the biggest defence budget in the EU and second largest in NATO, and for centuries Scottish people have been at the heart of our armed forces.

The UK's integrated approach to defence not only protects all parts of the UK, it also allows us to contribute to conflict prevention and to humanitarian operations overseas.

To me it is clear.

As a United Kingdom we get a seat on all the most important international tables, and we can put Scottish values at the centre of all global decisions.

### **Economic reach**

Our greater size and wider reach not only helps when it comes to diplomacy, humanitarian work, and disaster relief, it also helps Scottish companies succeed in the global marketplace.

As a United Kingdom we have a successful network of embassies and trade bodies across the world.

This opens up the whole globe for Scots to travel and do business in.

The UK's diplomatic network employs over 14,000 people in 267 embassies, high commissions and consulates in 154 countries and 12 overseas territories around the world.

On top of that, the UK works internationally to promote and protect the economic interests of businesses based in Scotland.

Scottish businesses benefit from access to and promotion from UK Trade and Investment's 169 offices in over 100 countries.

This is the reason why Scottish produce is so well-known around the world.

Whether it's promoting Scotch whisky in the Far East, selling Harris Tweed across Europe, or marketing Aberdeen Angus beef in the United States, the UK provides a launch pad to help these uniquely Scottish goods go global.

That international success would be so much harder to achieve for an independent Scotland.

There would be a lengthy and expensive process to set up its own diplomatic, consular, trade and other international services.

New relationships would have to be formed.

And new systems put in place.

Scotland doesn't need that.

As part of the UK we benefit from the economies of scale and we can use our deep pockets to widen our international economic influence.



## **Conclusion**

When it comes to the EU, to our global influence, to our economic reach, the UK really gives us – as Scots – an ability to punch above our weight internationally.

To fight for Scottish interests across the world.

To promote Scottish values across the world.

And to export Scottish products across the world.

It's one of the most powerful reasons why we're better, stronger, more influential, as part of the United Kingdom.

Thank you for listening.