



SCOTLAND'S PLACE IN EUROPE:

People, Jobs and Investment Summary



Scottish Government
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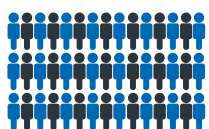
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This paper presents the latest analysis by the Scottish Government of the implications for Scotland's economy if the UK exits the European Union (EU). Our conclusions are stark: Brexit will significantly weaken our economy and result in slower economic growth and lower incomes than otherwise. A Brexit which results in the UK being outside the European Single Market and Customs Union will have the most damaging consequences for Scotland.



MEMBERSHIP OF THE EUROPEAN SINGLE MARKET PROVIDES SCOTLAND'S BUSINESSES WITH UNRESTRICTED ACCESS TO A MARKET OF OVER 510 MILLION PEOPLE.

The Scottish Government believes Scotland's future is best served by continued EU membership, in line with the wishes of the Scottish people as expressed in the referendum in 2016. However, if Brexit proves to be inevitable, our interests, as defined by the First Minister in her Institute for Public Policy Research speech in 2016, are best protected by the UK remaining inside the European Single Market and Customs Union.

This paper demonstrates the benefits Single Market membership has delivered and could deliver in future, and also sets out in detail the adverse economic consequences of a hard Brexit, which would undermine Scotland's economic prospects by creating significant impediments to trade in goods and – in particular – services. Leaving the Single Market would also compromise the vast range of common economic, social, consumer, and environmental standards that we have become accustomed to as a member of the EU. This is not acceptable to the Scottish Government nor, we believe, to the people of Scotland.

This paper is published as the UK Government and EU negotiators are poised to embark on the crucial second stage of the Brexit negotiations during which the UK's future relationship, and the transitional arrangements leading to that relationship, are discussed. Despite the

Prime Minister's insistence that the UK can secure a deal with the EU27 which provides for comprehensive access to the European Single Market, the European Commission negotiators have repeatedly stressed that the effective choice lies between remaining members of the European Single Market or concluding a free trade agreement (FTA) similar to that the EU recently concluded with Canada, but that only the latter is compatible with the Prime Minister's "red lines". The EU-Canada agreement provides limited access to the European Single Market in sectors of critical importance to Scotland's economy, not least services.

EXPORTS TO THE EU AND OTHER COUNTRIES THE EU HAS TRADE AGREEMENTS WITH, ARE WORTH £15.9 BILLION. THAT'S 56 PER CENT OF TOTAL INTERNATIONAL EXPORTS.



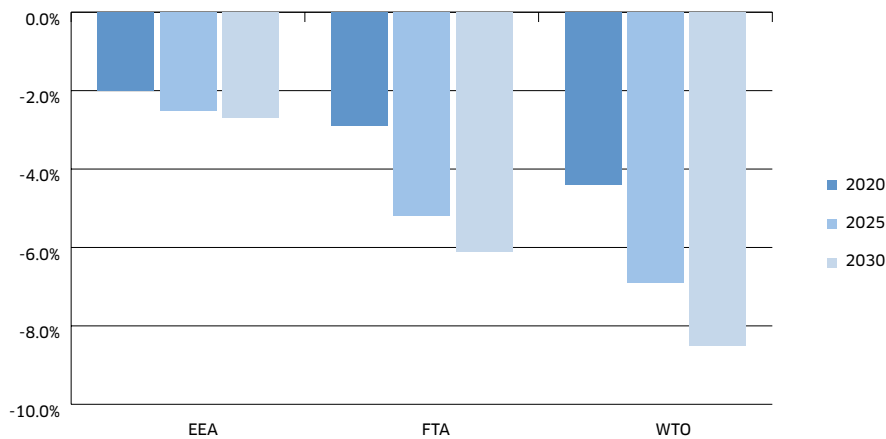
The analysis and conclusions in this paper will form the evidential basis for the Scottish Government's engagement with both the UK Government and the EU as these negotiations unfold.

In this paper we develop and extend the work reported in *Scotland's Place in Europe* in four respects.

First, we demonstrate the costs to Scotland of the UK exiting the EU by a comparative analysis of the macro-economic impact under the three alternative scenarios with (i) continued European Single Market membership, (ii) a preferential UK-EU (free) trade agreement (the UK Government's apparent preferred option), and (iii) non-preferential access to the European Single Market under the terms of the World Trade Organization (WTO).

All outcomes, short of full EU membership will damage Scotland's economy. The analysis shows that, by 2030, the Brexit associated reduction to Scottish GDP will be between 2.7% under the (least damaging) European Economic Area (EEA) membership option and 8.5% if the UK-EU future relationship is based on WTO terms.

Change in Scottish GDP relative to baseline of full EU membership



Source: Scottish Government Global Econometric Model (SGGEM)

This suggests that Brexit could result in a loss of economic output of as much as £12.7bn in 2016 cash terms, equivalent to a loss of £2,300 a year for each person in Scotland by 2030.



LEAVING THE EU AND THE SINGLE MARKET COULD REDUCE SCOTLAND'S ECONOMIC OUTPUT BY 8.5% BY 2030, EQUIVALENT TO A LOSS OF £2,300 A YEAR FOR EACH PERSON IN SCOTLAND.

Second, we consider the future economic opportunities that will accrue to Scotland if we remain inside the European Single Market and therefore able to share in the economic gains from future developments in the trade in services and completion of the digital single market.

As the European Single Market continues to deepen new opportunities for high-value trade will emerge – particularly in the services sector, the energy sector, and the digital economy. These are sectors of key strategic importance to Scotland's future prosperity.

Thirdly, we examine the consequences of a hard Brexit for a range of policy objectives and aspirations we share with our EU partners, and to which we have both contributed to, and benefited from, for many years. This includes EU environmental policy, social policy, research and innovation policies, and policies in the area of workers' rights, consumer protection and consumer safety. In all of these policy areas, and beyond, UK rules and regulations conform to EU standards. A hard Brexit risks a divergence in these standards and lessens the effectiveness of policy collaboration on these key issues as well as lessening the standards and protections that we are accustomed to. This approach will also jeopardise the tangible gains we enjoy through continued collaborations with our EU partners, including in justice and home affairs issues, research, social policy, and security.

Fourth, we summarise the substantial benefits to our economy and society that have been secured through the freedom of movement of persons, one of the four ‘freedoms’ at the heart of the European Single Market. And we consider the implications of ending the free movement of persons for the demographic challenges confronting Scotland.

The key findings are:

- ★ On average each additional EU citizen working in Scotland contributes a further £34,400 in GDP.
- ★ The total contribution by EU citizens working in Scotland is approximately £4.42 billion per year.
- ★ On average each additional EU citizen working in Scotland contributes £10,400 in government revenue.

IT IS ESTIMATED THAT ON AVERAGE, EACH ADDITIONAL EU CITIZEN WORKING IN SCOTLAND CONTRIBUTES £10,400 IN TAX TO PAY FOR THE NHS AND OTHER PUBLIC SERVICES.



The analysis also shows that key sectors of our economy are particularly dependent on the contribution of EU citizens. Distribution, hotels and restaurants, and manufacturing are sectors which are heavily reliant on EU workers; non-UK EU citizens make up over 7% of employees in the manufacturing sector. Moreover, employers in Scotland across all parts of the public and private sector rely on the contribution of EU nationals. EU nationals are also key to our international competitiveness, and make up a significant proportion of employment in sectors which are large exporters within Scotland.

The single market free movement of persons also allows Scotland to address the substantial demographic challenges we face. It is projected that the population of pensionable age will increase by 25% over the next 25 years. The anticipated increase is highest for the older age groups, with all age groups below 65 projected to decline in population over the next 25 years. The projected growth in Scotland's population will slow if levels of EU migration are reduced. In scenarios where future EU migration is constrained, the population is projected to peak in the 2030s and then decline after that point. In contrast, the UK overall continues to see its population increase every year over the next 25 years.



ALL OF THE INCREASE IN SCOTLAND'S POPULATION OVER THE NEXT DECADE IS EXPECTED TO COME FROM PEOPLE MOVING HERE. WITHOUT IMMIGRATION THE NUMBER OF PEOPLE OF WORKING AGE, WORKING AND PAYING TOWARDS PUBLIC SERVICES IN SCOTLAND IS LIKELY TO FALL.

As the UK Government embarks on what will be the most crucial set of international negotiations of recent years, it is essential that it is the economic and social interests of the country that shape our future relationship with the EU and not narrow and transient political considerations. It is also essential that the UK negotiating position fully reflects the interests of all parts of the UK. To this end we take this opportunity to restate our position that the Scottish Government – along with the other devolved administrations – must be fully engaged in these negotiations at every stage.

It is clear there is an emerging and broadly based consensus in the country at large to minimise the adverse impact of Brexit on growth and jobs. This can only be achieved by prioritising our continued membership of the European Single Market and Customs Union.

In the coming weeks the Scottish Government will publish a series of detailed papers on a range of policy issues that will demonstrate the full consequences for Scotland's economy and society if, instead, the UK Government pursues a hard Brexit. In that event the Scottish Government will actively pursue an alternative future for our relationship with the EU.



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