SCOTLAND'S ECONOMY

- Scotland is one of the strongest economies in the world – with advantages and resources few nations can match. Even without oil, GDP per head in Scotland is higher than the UK average excluding London; and the unemployment rate in Scotland (4.0%) is now lower than in the UK (4.6%).
- We're investing in our future: a multi-billion pound infrastructure plan and a £500 million Scottish Growth Scheme.
- We're building a skilled and educated workforce: 30,000 Modern Apprenticeships starts per year by 2020 and a £5 billion investment in higher education over the last five years.
- We're determined to remain an open, European nation inside the world's largest single market.

- Scotland's economy continued to grow in 2016, and the labour market remains resilient.
- [Redacted] productivity – the key driver of economic performance - is 7.6 per cent higher than before the recession. In the UK as a whole productivity is 0.4 per cent higher.
- [Redacted]

Scotland's strengths
- We have substantial natural resources, one of the most highly educated workforces in Europe, a long standing reputation for innovation and an internally-recognised brand.
- We are world leaders in key industries of the future, such as life sciences, financial services and financial technology, creative industries and sustainable tourism.
- We have shown resilience: our GDP per head has recovered more strongly than the UK. Scotland is 1.8% above pre-recession level, compared to 1.7% in the UK (to 2016 Q4).

We are investing in our future
- A £500m Scottish Growth Scheme, targeting high growth, innovative and export-focused SMEs.
- Taking forward our Infrastructure Investment Plan, with projects valued at more than £6.4 billion currently in construction or starting construction during 2017.
- Our energy and manufacturing industry is leading the way in 'smart', low carbon technologies of the future.

We are helping small businesses to grow
- Our Small Business Bonus Scheme will remove the business rates burden entirely from 100,000 premises.

We are boosting connections
- By committing to halve the overall burden of Air Departure Tax by the end of this Parliament, to support growth and improve Scotland's connections with countries across the globe.
- By delivering over £400 million of investment to deliver fibre broadband to 95% of properties across Scotland by the end of 2017 and delivering further investment to provide superfast broadband to 100% by 2021.

We are building a skilled and educated workforce
- By increasing the number of Modern Apprenticeships starts to 30,000 per year by 2020.
- By building a college sector that works with business to train young people in the skills we need.
- By investing over £5 billion in the higher education sector over the last five years, with another £1 billion to come in 2017-18.
- By investing £750 million in the course of this Parliament to close the poverty-related attainment gap in our schools.

We are determined to remain an open, welcoming European nation
- Scotland had a record breaking year for securing FDI projects in 2016, attracting more R&D projects than the rest of the UK outside London for the fifth year in a row.
- The value of Scotland's international exports has increased by 41% between 2007 and 2015 (from £20.4 billion to £28.7 billion).
- We have established a Board of Trade, and are adding Berlin to our Innovation and Investment Hubs in Dublin, London and Brussels.

SCOTLAND'S ECONOMIC PERFORMANCE

- MB Aerospace Investment [19 June] - The BBC reported that the Scottish engineering firm MB Aerospace based in Motherwell, have secured a £780 million contract from a US company to supply flight engine parts. The investment is expected to create 160 new jobs reinforcing Scotland's FDI attractiveness as reported in the recent EY survey.
- Food and Drink Exports [18 June] –Scotland's food and drink exports increased by over 11% in the 12 months to Q1 2017. Scotch Whisky and Scottish Salmon were the top two UK export products by value in 2017Q1, making up 22% of the value of UK food and drink exports
- Scottish Labour Market Statistics [14 June] – Latest data show that over the past quarter, the unemployment rate fell to 4.0% (UK, 4.6%) and the employment rate rose to 74.1% (UK, 74.8%), however, the inactivity rate rose slightly to 22.7% (UK, 21.5%).

Recent data shows encouraging signs for Scotland's economy.

- Unemployment has fallen by 49,000 over the past year. Scotland's unemployment rate now stands at 4.0%, **matching its lowest ever rate**.
- The Aberdeen and Grampian Chambers of Commerce Oil Survey showed contractors' confidence in the North Sea has improved significantly and is now the highest since 2013.
- Scotland's food and drink exports have risen 11% over the past year. Scottish Whisky and Salmon accounted for nearly a quarter of overall UK food exports in the last quarter (2017Q1)
- The Bank of Scotland PMI for May showed improved confidence amongst businesses with optimism levels remaining strong

The latest EY Attractiveness Survey shows Scotland had a record breaking year for securing FDI projects in 2016.

- Scotland secured 122 FDI projects in 2016, more than any part of the UK outside London for the fifth year in a row.
- Scotland attracted more R&D projects than any other UK region in 2016, including London. In addition, Scotland was second only to London in securing software projects.
- All three of Scotland's largest cities (Glasgow, Edinburgh and Aberdeen) are in the UK's top ten for numbers of FDI projects secured.
- FDI projects helped to secure nearly 2,900 jobs in Scotland in 2016 (down from 5,400 in 2015).

Scotland's economic fundamentals have been strong over the past 10 years.

- **Employment** – The employment level in Scotland is 60,000 above its pre-recession peak (Mar-May 2008), and 187,000 above the recession trough (Feb-Apr 2010).
- **Productivity** –Since 2007, GDP per hour worked has increased by 7.6% in Scotland, compared to 0.4% for the UK as a whole.
- **Registered Businesses** – The number of registered businesses in Scotland has grown by 15% since 2007 to an all-time record level of 174,000 in 2016.
- **Research & Development** – Scotland's Business R&D rose by 41% in real terms between 2007 and 2015 to £871 million.
- **Exports** – International exports are up 41% between 2007 and 2015 (£20.4 billion to £28.7 billion).

Real risk to Scotland's economy comes from a hard Brexit.

- The EU is the largest single market for Scotland's international exports, with exports worth £12.3 billion in 2015 – an increase of £520 million on the previous year.
- Brexit threatens to cost our economy around £11 billion a year by 2030, and result in 80,000 fewer jobs, compared to remaining a member of the EU.

Scottish Government is taking actions to support businesses and grow the economy.

- On 16 June, the Scottish Government launched the first package of new support through the £500m **Scottish Growth Scheme** which will target high growth, innovative and export-focused SME's. Companies looking for significant investment will now be able to access an additional £200 million through the Scottish-European Growth Co-investment Programme.
- We are committed to expanding the **Small Business Bonus Scheme** in 2017 to remove the rates burden entirely from 100,000 premises.
- We're increasing the supply of **affordable housing** in Scotland. Having exceeded our target to deliver over 30,000 affordable homes in the last Parliament, we are now committed to delivering at least 50,000 affordable homes by the end of this Parliament.
- We're improving **Scotland's transport connectivity**, through strategic investments in our transport infrastructure, including investments in the Queensferry Crossing, the M8 M73 M74 Motorway Improvements Project, the Aberdeen Western Peripheral Route, and continuation of the Edinburgh-Glasgow Rail Improvement Programme.
- We're investing to improve **Scotland's Digital Connectivity** and in 2017/18 plan to invest £112 million in digital and mobile infrastructure, including £51 million to support our commitment to deliver 100% superfast broadband access by 2021.

BUSINESSES IN SCOTLAND

- The latest figures show that Scotland's registered business stock is at a record high. Scotland's Business Research & Development spend has seen real growth since 2007. However, start-up rates and business innovation rates are still low compared to other areas of the UK.

Scotland's registered business stock at a record high level

- **Business in Scotland –** In 2016, there were 350,410 private sector businesses (registered & unregistered) operating in Scotland - representing a decrease of 10,935 (-3.0%) since 2015. The decrease over the latest year is due to a fall in the number of unregistered businesses (the smallest sole traders/partnerships that are not registered for VAT/PAYE).

- **Registered Businesses** – The number of registered businesses in Scotland has grown by 15% since 2007 to an all-time record level of 173,995 in 2016.

- **Business Size –** Although Small and Medium-Sized Enterprises (SMEs – less than 250 employees) dominate both the Scottish and UK private sectors, large (250+ employees) businesses account for a higher share of Scotland's private sector employment (45%), compared to the UK as a whole (40%). (Source: Businesses in Scotland 2016).

- **Business Start-Ups –** Compared to the rest of the UK, Scotland has a low business start-up rate per capita. In 2015, there were 72 business start-ups per 10,000 adults in the UK, compared to 49 business start-ups per 10,000 adults in Scotland. (Source: Business Demography 2015).

The 2017 Ernst and Young Attractiveness Survey shows that Scotland continues to perform well at attracting foreign investment

- In 2016, Scotland attracted 122 global Foreign Direct Investment (FDI) projects – exceeding the previous ten-year high set in 2015.
- After London, Scotland had the second largest share (11%) of all UK FDI projects in 2016.
- Scotland has secured the UK's second highest number of projects in every one of the past five years.

Business Expenditure on R&D is lower than we would like but has increased faster than the UK

- Since 2007, Scotland's Business Enterprise R&D (BERD) expenditure has risen by 41% in real terms, whereas UK expenditure increased by only 17% over the same period.

- Whilst Scotland has seen relatively fast growth in BERD spending between 2007 and 2015, it remains low, equivalent to only 0.60% of GDP – compared to 1.11% for the UK and 1.22% for the EU as a whole. (Source: Business Enterprise Research and Development 2015).

- According to the latest UK Innovation Survey for 2015, 50.4% of Scotland's enterprises were innovation active – slightly lower than the UK share of 53.0% of enterprises. Although Scotland slightly lags the UK on this indicator, growth in innovation activity has been stronger in Scotland since 2011. Innovation active enterprises in Scotland have increased by 18.8 percentage points since the 2011 survey compared to 17.6 percentage points for the UK as a whole.

LABOUR MARKET

Labour Market Statistics
ONS Labour Force Survey [Wed 14th June] for February to April 2017, showed:

- Strong performance over the quarter (and the year): Over the quarter (and the year), Scotland's employment level and rate rose and the unemployment level and rate fell; However, the inactivity rate and level rose slightly over the quarter (and the year).
- Mixed performance compared to the UK as a whole: Scotland's unemployment rate was lower than the UK's. However, the employment rate was lower and inactivity rate was higher than the UK's.

The ONS Working and Workless households [released on Wed 31st May] for Jan-Mar 2017 show:

- There were 341,000 workless households in Scotland, up 1.5% from 336,000 a year ago. There are now 74,000 less workless households in Scotland compared with the peak in Apr-Jun 2010 (414,000).
- There were 119,000 children in workless households in Scotland. 12.9% of children lived in workless households, up 0.7 percentage points over the year. This is higher than the UK rate of 10.6% and is the 3rd highest across the 12 Government Regions of the UK.

Investment

- The Scottish economy remains strong and recent positive news of investment includes:
- Knockando Woolmill – 29 May 17 - Europe's oldest district woolmill in rural Moray, is set to increase its productivity, competitiveness and turnover, creating a new post and retaining existing staff. The company has secured up to £100,000 in grant from HIE and, through the generous support and funding of Historic Environment Scotland, a loan facility of up to £250,000 from the Architectural Heritage Fund. The money will be used to invest in new equipment and production software, as well as supporting the growth and operational requirements of the business.
- Cope Ltd – 23 May 17 - The Lerwick based company is being supported by a grant of £122,350 from HIE to help diversify and grow the business. This is a well-established and successful social enterprise providing employment and skills for adults with disabilities. All profits and surpluses from goods sold are reinvested back in the company.
- CorporateHealth International ApS – 15 May 17 – The Danish company is to embark on a £5.7 million project to establish a new diagnostics centre at the Campus through their subsidiary Corporate Health International UK Ltd (CHI UK). HIE is supporting the company with investment of £600,000 which will support CHI UK to set-up and develop in the region and create 30 new jobs over the next 3 years.

- **The Scottish economy has been resilient over the past 12 months in the face of the most challenging external economic conditions in recent years.**
- **£100 million** in extra spending in this financial year (16/17) through our Capital Acceleration Programme to support and create employment.
- The 2016 Programme for Government announced a **£500 million** package of financial support through a three-year Scottish Growth Scheme which unlocks investment for the private sector.
- Brexit poses a real and direct risk to continued economic recovery in Scotland.
- Labour market figures continue to show the utmost importance of Scotland and the UK as a whole retaining membership of the European single market. On 20 Dec 2016, SG launched 'Scotland's Place in Europe" making the case for Scotland, and ideally the whole of the UK, to retain Single Market membership. [Redacted]

Scotland's Labour Market remains resilient and fair

- Our economy is strong, wealthy and productive. The employment level in Scotland is 60,000 above its pre-recession peak (Mar-May 2008), and 187,000 above the recession trough (Feb-Apr 2010).
- **Scotland's unemployment rate is lower than the UK's (4.0% vs. 4.6%), with the number of people unemployed in Scotland decreasing by 17,000 over the quarter.**
- Using the latest internationally comparable data [Q1 2017], **Scotland's unemployment rate (4.4%) is lower than averages of the G7 (5.2%), the OECD (6.0%) and the EU (7.9%)**.
- **Scotland outperforms the UK on youth employment, inactivity and unemployment.** The youth unemployment rate (8.8%) is amongst the lowest in the EU.
- The proportion of **working households** in Scotland rose by 0.9 % points to 57.3% over the year to Jan-Mar 2017. The number of households, where all household members aged 16 and over, are in employment in Scotland increased by 2.0% over the year to Jan-Mar 2017, ahead of the 1.4% increase across the UK

We will monitor progress over time as the Labour Market evolves and changes

- Scotland's Labour Market Strategy sets out a vision for a strong labour market that drives inclusive, sustainable economic growth, characterised by growing, competitive businesses, high employment, a skilled population capable of meeting the needs of employers, and where fair work is central to improving the lives of individuals and their families. We will improve labour market data and develop new labour market indicators, work with the Fair Work Convention to develop employment and work quality indicators; and we established a Strategic Labour Market Group, which met for the first time on 22 February 2017, to advise Ministers on future developments in the labour market.
- The Strategy sets out how we will invest £820,000 in a range of activity that will support inclusive growth. For example £200,000 to support the Scottish National Action Plan for Responsible Business.

We promote fair work and responsible business to drive sustainable inclusive economic growth

- The OECD estimates that rising income inequality in the UK reduced GDP per capita growth by 9 percentage points between 1990 and 2010. *[Trends in Income inequality and its impact on Economic Growth(2014)*]
- Scotland outperforms the UK on the female employment rate (70.6% vs 70.2%), the female unemployment rate (4.1% vs 4.4%) and the female inactivity rate (26.3% vs 26.5%).
- The gender pay gap for full-time employees in Scotland has decreased from 7.7% in 2015 to 6.2% in 2016. In the UK it has decreased from 9.6% to 9.4%. The gap remains lower than the UK average and indeed the decrease in the UK gap has in part been driven by the Scottish figure.
- The number of Registered Businesses in Scotland has grown 15% since 2007 to an all-time record level of 173,995 in 2016.
- Business R&D expenditure within Scotland has risen by 41% in real terms between 2007-15 against UK expenditure increase of only 17% over the same period.
- An Ernst & Young Attractiveness Survey (May 2016) shows that in 2015 Scotland attracted 119 Foreign Direct Investment Projects, a 51% increase than the year before and more than any part of the UK outside of London
- Scottish Development International helped 2,500 companies internationalise last year, up from 1,400 four years ago.

SUMMARY OF THE MARKIT REPORT ON JOBS FOR SCOTLAND – 6 JUNE 2017

Markit Report on Jobs

[Tue 6th June] reported that permanent staff placements in Scotland rose at the fastest rate for 27 months, the same rate as across the whole UK. The report also found that:

- *Demand for permanent and temporary staff grew strongly in Scotland, both at faster rates than in the UK.*
- *Availability of permanent staff in Scotland fell at a faster rate than in April, though at a slower pace than the rate across the whole UK.*
- *Permanent and temporary starting salaries continue to rise; for temporary salaries, the rate was faster than the UK's.*

KEY ACTIONS TO GROW THE ECONOMY

- We are taking a number of actions under the 4 strategic priorities (the 4Is) identified in Scotland's Economic Strategy to grow Scotland's economy, and ensure it remains resilient.

1. Significant Actions to Support the Economy

- **We are taking action to support economic growth over the long term**, including:
  - Investing in our future through our multi-billion pound infrastructure plan and the £500 million Scottish Growth Scheme;
  - Substantial **investments in transport and digital connectivity**;
  - Committed to reducing the burden of **Air Departure Tax** to improve Scotland's connectivity;
  - **We plan to invest more than £1 billion in our universities in 2017-18**, and are supporting collaborations between universities, businesses and others through our **Innovation Centres**;
  - **Established a Board of Trade**, and creating permanent trade representation in Berlin to add to our **Innovation and Investment Hubs** in Dublin, London and Brussels
  - Increasing the number of **Modern Apprenticeship** opportunities to 30,000 per year by 2020.

2. Internationalisation

We're boosting Scotland's trade, exports and international connections.

- We have established a **Board of Trade,** drawing on a wide range of business expertise. This will support delivery of the actions in our Trade & Investment Strategy to boost the number of exporters and increase the number of exports to new markets. We will also set up a Trade Envoy scheme.
- We will create permanent trade representation in Berlin, adding to our **Innovation and Investment Hubs** in Dublin, London and Brussels.
- Committed to a **50% reduction in the overall burden of Air Departure Tax** by the end of this Parliament, to help boost international connectivity.

3. Investment

We'll be providing support to businesses with high growth potential.

- The First Minister has announced a **£500 million Scottish Growth Scheme** targeting – over three years – high growth, innovative and export focused SMEs.
- First product under the Scottish Growth Scheme - the **Scottish–European Growth Co-investment Programme** launched on 16 June: £200m initiative bringing together investment from Scottish Government (through Scottish Enterprise), the EIF and private sector fund managers.

We're increasing the supply of affordable housing in Scotland.

- Having exceeded our target to deliver over 30,000 affordable homes over the course of the last Parliament, we are now committed to **delivering at least 50,000 affordable homes**, backed by more than £3 billion investment by the end of this Parliament.

We're improving Scotland's connectivity, through strategic transport investments.

- We will complete the **Queensferry Crossing**, investing an estimated £1.325-£1.35 billion.
- We're taking forward almost £2.8 billion of investment in other roads and transport projects, including the M8 M73 M74 Motorway Improvements Project, the Aberdeen Western Peripheral Route, and continuation of the Edinburgh-Glasgow Rail Improvement Programme.

We're investing to improve Scotland's Digital Connectivity.

- During 2017/18, we plan to invest up to £112 million to improve digital infrastructure across Scotland. This funding will support the final phases of the DSSB programme and enable new activity to begin on delivery of our 100% superfast broadband commitment and mobile infill.

We're supporting investment in Scotland's cities and regions.

- We are a full partner in all the **City Region Deals** agreed in Scotland so far, matching and in some cases exceeding the financial contributions made by the UK Government.

- We have committed to investing up to £760 million over the next 10 to 20 years for City Region Deals in Glasgow, Aberdeen and Inverness.
- We will continue work to support Edinburgh and South East Scotland, Tay Cities and Stirling and Clackmannanshire City Regions developing proposals.
- In 2015-16, Scottish Enterprise offered £17.1 million of **Regional Selective Assistance** investment to 65 businesses, which is expected to create or safeguard almost 1,900 jobs and total capital investment of around £100 million.

We're taking action to support small businesses across the country.

- Matching the English poundage rate, cutting the current rate by 3.7%.
- Increasing the threshold at which the large business supplement becomes payable; Expanding the small business bonus scheme threshold for 100% relief from £10,000 to £15,000 so that it lifts 100,000 properties out of rates; and capping the bill rises for hotels, restaurants, pubs and cafes as well as offices in Aberdeen & Aberdeenshire and small-scale hydro (up to 1 MW) at real-terms 12.5% this year.

4. <u>Innovation</u>

We are building a culture of innovation and entrepreneurship in Scotland.

- Developing an innovation prize to reward, and invest in, innovation in Scottish companies
- Supporting digital innovation through CivTech, the world's first cross public sector technology accelerator
- Increased investment in Interface, Scotland's hub to connect business and academia;
- Encouraging public sector and large and small firms to collaborate through Scottish Enterprise's £2.9 million Open Innovation programme;
- Developing a plan for establishing a National Manufacturing Institute for Scotland that will act as a hub for innovation so Scotland remains a sustainable and competitive place to do business.
- Implementing the Innovation Action Plan published on 11 January.

We're building on the excellence of our Universities, and supporting commercialisation of world-class research in Scotland.

- We have invested over £5 billion in the higher education sector over the last five years, and have announced in the budget our plans to invest more than £1 billion in 2017-18.
- Continuing to support the network of eight Innovation Centres, to use academic expertise to address real world business issues. The SFC has committed up to £120 million over 6 years, 2013-19.

5. <u>Inclusive Growth</u>

We're equipping our young people for the future.

- Increasing the Scottish Attainment Challenge funding to £750 million during the course of this parliament to tackle the poverty related attainment gap.
- Increasing the number of Modern Apprenticeship opportunities to 30,000 per year by 2020.
- Supporting young people aged 16-24 who have been out of work for six months or more by introducing a Job Grant.

We're expanding funded childcare to improve young children's outcomes and reduce barriers to parents participating in the economy.

- Delivering 600 hours per year of free high-quality early learning and childcare for all 3 and 4 year olds and eligible 2 year olds, and working towards 1140 hours by the end of this Parliament.

TRADE

- Scotland is currently part of the European Single Market of 500 million people and 31 countries. It's eight times larger than the UK alone.
- [Redacted]
- [Redacted].
- [Redacted]

<u>If Scotland was Independent</u>

- The rest of the UK exports more than £50 billion to Scotland every year. They export more to Scotland than to any other country in Europe and to any other country in the world, bar the US. [Redacted].
- 63 pc of Scotland's exports to go the rest of the UK. But 75 pc of Canada's exports go to the US. Independent neighbouring countries with close cultural links trade with each other. [Redacted]
- [Redacted]

<u>The real choice is between two futures for Scotland</u>

<u>[Redacted]</u>

- [Redacted] Brexit will cut growth in the UK, hit living standards and jobs. If we are out of the Single Market:
  - Scottish trade with the EU will suffer. And business with the rest of the UK will also be hit because the UK will become poorer.
  - [Redacted]
  - [Redacted]

<u>In the Single Market</u>

- Since 2007 Scottish trade with the EU has been growing faster than with the UK (25 pc v 21pc).
- The Single Market is not yet complete. It's estimated a single market in digital services could add €415 bn to the EU economy. That's the opportunity for Scotland.

EXPORTS STATISTICS SCOTLAND 2015

Export Statistics Scotland (SG figures published in January 2017)

- Showed a £1bn (3.6%) increase in the total nominal value of international exports (excluding oil and gas) from Scotland – from £27.7bn in 2014 to £28.7bn in 2015. This covers both goods and services.
- The Economic Strategy targets a 50% increase in the value of international exports between 2010 and 2017. We won't know if we have met this until Jan 2019 but would require an average annual growth of 11% in next two years. Between 2002, and 2015, only one year has achieved a growth rate close to this (12.3% increase in 2011).

HMRC Regional Trade Statistics for Q1 2017 (published 9 June)

- Scotland's annual goods exports increased by 8.5% in value to £26.9bn, whereas UK exports increased by 11.3%.
- All four UK countries saw an increase in the value of their goods exports. Scotland (8.5% increase), England (12.2% increase), Wales (12.0% increase) and Northern Ireland (11.8% increase).
- Increase of Scottish goods exports was driven by an increase in exports of machinery and transport, up 19.8 per cent, or £1.3bn (from £6.8bn to £8.1bn). This commodity represents over 30 per cent of all goods exports from Scotland.
- Scotland's goods exports to the EU **decreased** by 2.6% to £12.2bn. This was driven by a fall in oil and gas exports which decreased by 16.0% (£904m) from £5.7bn to £4.8bn. Total UK exports to the EU increased by 12.0%.
- However Scotland's goods exports to non-EU countries **increased** by 19.8% to £14.8bn. Around half of this increase was due to increased exports of machinery and transport, up £1.3bn (27.6%) to £5.9bn. Exports of oil and gas to non-EU countries almost doubled from £768m to £1.5bn (up 96.2%). Total UK exports to non-EU countries increased by 10.5%.
- Overall, Scotland's oil and gas exports, which make up almost a quarter of all goods exported, decreased by 2.5% or £164m, driven by the decrease to EU countries mentioned above.
- More goods continue to be exported to non-EU countries (55% of the total) than EU countries (45% of the total). The proportion for the UK as a whole is 49% to EU.

It is hugely encouraging to see that Scotland's total international exports, excluding oil and gas, increased by £1 billion in 2015

- 2015 was a challenging year across global economies with the added headwind of the sustained period of low oil prices weighing on the Scottish economy.
- **The EU remained the largest single market for Scotland's International exports.**
- Exports to **the EU** increased by £520m (4.4%) to £12.3bn (43% of total international exports).
- Exports to **the USA**, our biggest single-country international export destination, stood at **£4.6bn** in 2015 (15.9% of total international exports).
- **Since 2007**, international exports have increased by **41% (£8.3bn).**
- **Since 2010** international exports have increased by **21% (£5bn)** – higher rate than the 12% increase in exports to the rest of the UK during this period.

I want to be clear that Scotland should not face a choice between exporting to the EU or UK – we can, and should, do both

- It is clear that since the vote to leave the European Union, **we must continue to be seen to be a country that is outward facing and open for business**
- **The EU market is eight times the size of UK market (based on population), which highlights the importance of remaining in the Single Market.**
- It is also nonsense to suggest that companies in the rest of the UK would cease trading with Scottish firms if we were inside the single market but outside the UK – **exports to Scotland from companies in the rest of the UK are themselves worth over £50 billion** (Quarterly National Accounts Scotland).
- Although not strictly comparable, this implies Scotland would rank second, in terms of exports from the rest of the UK, after USA (£100 billion). For context, the UK export £45 billion of goods and services to Germany.
- **And during her speech in January on Brexit, while talking about global trade, the Prime Minister herself said:** *"We want to buy your goods, sell you ours, trade with you as freely as possible, and work with one another to make sure we are all safer, more secure and more prosperous."*
- [Redacted]

- Fraser of Allander research, commissioned by the Scotland Office, estimates around **530,000 jobs** in Scotland are supported by demand for Scotland's goods and services from the rest of the UK in 2013.
- **However trade works both ways and Scottish Government's own analysis indicates that exports from the rest of the UK to Scotland supported over 500,000 full time equivalent jobs in the UK economy.**

Leaving the European Union will present significant challenges for Scottish exports

- Leaving the European Union, including the Single Market and EU Customs Union could create barriers to trade with the EU such as tariffs, customs checks, rules of origin and divergent regulatory regimes.
- **Leaving the EU Customs Union could also impede Scottish trade with the rest of the world, as we stand to lose the benefit of 36 EU-Free Trade Agreements covering 53 markets.**
- Countries in close proximity, that share a single market and have integrated economies, and shared cultural traits trade more - for example, over 75% of Canadian exports went to the United States in 2015.
- We are clear that it is **not an either/or choice** between exporting to the EU or UK. We can and should be able to do both.

Strong export performance precedes the depreciation of sterling and reflects action taken by the Scottish Government to support exporters

- Figures published by ONS estimate that the **number of exporting businesses in Scotland have increased in each year from 2011 to 2015** and currently stands at around 11,500 businesses.
- In **2015-16 SDI helped almost 2,600 companies** to develop skills to internationalise, access new markets or increase international revenues.

Reports that Scotland's international exports are undercounted because exports which leave through non-Scottish UK ports are not included are incorrect

- The data used is based on the destination of the goods being exported regardless of how the product leaves the UK.
- While some Scottish exports to the rest of the UK may then be re-exported to the EU and beyond, that figure is believed to be very small (we do not have actual figures).
- Service exports, such as banking, unlikely to be re-exported anyway.

Scottish exports have also performed well across key sectors

- Exports from the **manufacturing** sector **increased by £860 million (6.1%) to £15.1 billion** in 2015. (52% of international exports
- Exports from the **services** sector **increased by £165 million (1.5%) to £10.9 billion** (38% of international exports).
- **Food and drink exports increased by £52 million (1.1%) to £4.8 billion in 2015 (17% of international exports)**. More recent **HMRC stats** show food and drink exports were worth £5.5 billion in 2016, an increase of 8% (£421 million). Within this, food exports alone grew by 22% to £1.5 billion.

LONG TERM ECONOMIC IMPLICATIONS OF BREXIT

- Single Market membership is vital for Scotland's economy, in terms of trade, investment and skilled migration. There is a clear consensus that leaving the European Union will damage the UK economy.

- SG paper summarises the impact that leaving the EU could have on Scotland based on recent studies. Indicates Scottish GDP could be up to £11.2bn lower by 2030 compared to forecast GDP in the absence of Brexit.
- The Fraser of Allander Institute confirms the risks Brexit poses to Scotland's economy.

Single Market has opened Scotland to a market of over 500 million people. Membership is vital for trade

- Scotland exported £12.3 billion to EU in 2015 – 43% of total international exports.
- Scotland secured more FDI projects than any part of the UK outside of London in 2016. FDI has created around 43,000 jobs in Scotland since 2006. The EY survey finds that over half (52%) of investors into the UK say that leaving the European Single Market makes the UK less attractive as an investment location,
- There are more than 1,000 EU owned companies in Scotland employing over 127,000 people
- Around 181,000 EU citizens live in Scotland, bringing new skills and expertise.

We seek the benefits of the Single Market for Scotland in addition to – not instead of – trade across the UK

- Neighbouring countries with close cultural links trade with each other. This will continue to be true of Scottish trade with UK. For example 75% of Canada's exports go to the USA. 63% of Scotland's exports go to RUK
- **Scotland's trade with RUK is a two way process. Companies in RUK sold £50 billion of goods and services to Scotland in 2015. This implies Scotland would be RUK's second largest export market after the USA.**
- And during her speech on Brexit, while talking about global trade, the Prime Minister herself said: *"We want to buy your goods, sell you ours, trade with you as freely as possible, and work with one another to make sure we are all safer, more secure and more prosperous."*

Fraser of Allander warns that Brexit could reduce Scotland's economic performance.

- The Fraser of Allander modelling of the WTO scenario suggests that after 10 years:
  - GDP expected to be over 5% (£8bn in 2015-16 terms) lower than would otherwise be the case and real wages are expected to be 7% lower, equivalent to a reduction of around £2,000 per year;
  - The number of people employed is 3% lower (around 80,000 jobs).

Brexit could hinder long term economic performance

An open economy trading with the world provides opportunities to introduce new technology, management techniques and innovations. This in turn boosts productivity and prosperity. Brexit will reduce these opportunities.

- **Lower Exports** - Any relationship with the EU short of full membership risks introducing tariffs and other trade barriers which would harm Scottish exports.
- **Lower FDI** - the EU single market as an important element of the UK's attractiveness for investment.
- **Reduced Migration –** Reducing free movement of people into Scotland will increase skill shortages and exacerbate demographic pressures
- **Public Finances** – Lower economic growth will reduce receipts and in turn funding for public services

Projected impact on Scottish GDP

Range of institutions estimate the impact that Brexit could have on UK. Applying to Scotland implies that by 2030:

- EEA membership could reduce Scottish GDP by £1.8bn - £11.2bn (£300 to £2,100 per capita)
- Bilateral agreement could reduce Scottish GDP by £1.7bn - £8.8bn (£300 to £1,600 per capita)
- WTO trading relationship could reduce Scottish GDP by £3.7bn - £11.2bn (£700 to £2,100 per capita)

<u>All results relative to what output forecast to be if Brexit didn't happen</u>

Summary of Forecasts Used in Scottish Government Paper			
Organisation	**Publication Date**	**Scenarios considered**	**What did the modelling consider?**
Centre for Economic Performance	March 2016	EEA and WTO	Two estimates produced. First only looks at impact on trade. Second adds impact on government budget and productivity
HM Treasury	April 2016	EEA, WTO and Bilateral Agreement	Impacts on government budget, trade, FDI and productivity
National Institute of Economic and Social Research	May 2016	EEA, WTO and Bilateral Agreement	Impacts on government budget, trade and FDI considered for all scenarios. An extended (dynamic) WTO scenario also adds in impact on productivity.
PWC/CBI	March 2016	WTO and Bilateral Agreement	Impacts on government budget, trade, FDI and regulation
OECD	April 2016	WTO and Bilateral Agreement	Impacts on government budget, trade, FDI, productivity, migration, regulation

Notes: Centre for Economic Performance is an interdisciplinary research centre at the LSE Research Laboratory. It was established by the Economic and Social Research Council (ESRC) in 1990

SCOTLAND'S FINANCES & TRADE UNDER INDEPENDENCE –

- The IFS forecasts that Scotland would run a deficit of 6.7% of GDP in 2021-22 - compared to a UK deficit of 0.7%. This means Scotland's 'fiscal gap' – the amount that Scotland's deficit would have to be reduced by to align it with the UK's – would be £11.7 billion (6.0% of GDP). (30 May)
- *"A deficit of 6.7% of GDP […] would be unsustainable […]* ***A newly independent country facing such a deficit would need to cut public spending or increase taxes to reduce the budget deficit to a more manageable level****"*.
- It estimates that reducing the deficit to 2.3% of GDP by 2021-22 *"would require Scottish revenues to grow by 4.0% a year in real terms, compared to a forecast 2.3% for the UK"*.
- The IFS notes that there are significant issues raised by Brexit. Whilst independence may bring the benefits of preferential access to the European single market, an independent Scotland may face bigger trade barriers with the rest of the UK: *"The impact of Brexit on the economic and fiscal impacts of Scottish independence is therefore far from clear."*

Independence provides the opportunity to pursue policies tailored to Scotland's needs

- **GERS represents Scotland's fiscal position under current constitutional arrangements.**
- Independence would provide the levers for the Scottish Government **to grow the Scottish economy and tackle inequality – thereby also improving Scotland's long term fiscal position**.
- **Independence would also allow the Scottish Government to re-focus its spending priorities**:
  - GERS assigns Scotland a population share of UK defence spending (£3.0 billion).
  - It has been estimated that the total lifetime costs of the Trident successor programme could be as high as £180 billion (October 2015, the Chair of the Commons Foreign Affairs Select Committee).
  - For example, the IFS estimates that if an independent Scotland inherited none of the UK's net public debt, its projected deficit would be 5.2% (rather than 6.7%) of GDP in 2021-22.

IFS expect Scotland's deficit (including oil) to fall in coming years.

- According to the IFS, **Scotland's deficit will fall from 9.5% in 2015-16 to 6.7% in 2021-22**.
- Scottish onshore revenues are expected to rise by £15.5 billion over this period (Scottish Trends).

Table: Scotland's Net Fiscal Balance (as a % of GDP)

GERS Outturn					IFS Projection (30 May 2017)					
2011-12	**2012-13**	**2013–14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
-5.7%	-9.2%	-8.2%	-9.1%	-9.5%	-8.4%	-8.5%	-7.7%	-6.8%	-6.8%	-6.7%

Scotland's fiscal position is broadly similar to the UK's excluding London and the South East.

- Recent ONS analysis shows (23 May):
  - **Scotland's deficit in 2015-16,** measured as a share of economic output, **was in line with the UK's excluding London and the South East**. (SG analysis of the ONS data)
  - **Revenue per person has been higher in Scotland than the UK in 16 of the last 17 years**.

The real threat to Scotland's budget is continued UK Government austerity and Brexit.

- Scotland's budget is expected to fall by 9.2% in real terms over the decade to 2019-20.
- Brexit threatens to cost our economy up to £11 billion a year by 2030, and the country 80,000 jobs over a decade, compared to remaining in the EU.
- Prior to the General Election, **the OECD warned that the UK's economy will slow next year as the prospect of a "hard" Brexit takes its toll on growth and confidence**. The OECD now expects that Italy will be the only G7 leading economy to perform worse than the UK next year (2018). (OECD Global Economic Outlook, 7 June)
- **Independence would not damage Scotland's trade with the UK. It would be in both sides interests to ensure that trade continued unimpeded.**

- **Scotland does not face a choice between exporting to the EU or UK – we can, and should, do both.**
- **Exports from the rest of the UK to Scotland are worth over £49 billion**.
- To put this into context, the only country the rest of the UK exports more to is the USA (£100 billion).

Trade works both ways: exports from the rest of the UK to Scotland support over half a million jobs in the rest of the UK.

- **Scottish Government analysis indicates that exports from the rest of the UK to Scotland supported over 500,000 full time equivalent jobs in the UK economy.**

QUOTE: The Prime Minister herself has advocated the merits of the UK trading with the world: *"We want to buy your goods, sell you ours, trade with you as freely as possible, and work with one another to make sure we are all safer, more secure and more prosperous through continued friendship"* (speech by Theresa May on the UK Government's negotiating objectives for exiting the EU, 17 Jan).

- [Redacted]

David Davis, Secretary of State for Exiting the European Union and the Prime Minister have also ruled out a return to a hard border between the Republic of Ireland and Northern Ireland.

- **Why then, would anyone want one between Scotland and the rest of the UK?**

QUOTE: On this David Davis said: *"We had a common travel area between the UK and the Republic of Ireland many years before either country was a member of the European Union.* ***We are clear we do not want a hard border - no return to the past - and no unnecessary barriers to trade.*** *What we will do is deliver a practical solution that will work in everyone's interests, and I look forward to opening the conversation about how that should operate [...]."* (Belfast Telegraph, 1 Sep 2016).

QUOTE: Theresa May writing in the Irish Times, 31 January 2017 said: "*The UK and Ireland have a shared interest in making sure that the Common Travel Area can continue*"; this arrangement has been in place long before our two countries joined the EU and we are determined to preserve it. ***Thousands of people cross between Northern Ireland and Ireland every day to work, study and do business. I want this to continue***..."

QUOTE: "*We will maintain the Common Travel Area and maintain as frictionless a border as possible for people, goods and services between Northern Ireland and the Republic of Ireland.*" (Conservative Manifesto, page 36)

QUOTE: The DUP manifesto calls for "*maintenance of the Common Travel Area*", a ***"frictionless border with Irish Republic"*** and a "*comprehensive free trade and customs agreement with the European Union.*" [However, the DUP are reportedly not calling for the UK to remain in the Single Market or customs union after Brexit, FT, 15 June]

QUOTE: The IFS also pointed out that independence could bring benefits: *"**An independent Scotland could seek to rejoin the EU and/or the European single market, which would bring it the benefits of preferential access to European goods and services markets. If businesses responded to the UK's exit from the single market by shifting investment or employment out of the country, an independent Scotland might be able to exploit its geographical, cultural and institutional proximity to the UK to attract a good chunk of that.** But an independent Scotland [...] might face bigger trade barriers with the rest of the UK. Given that Scotland's trade with the rest of the UK is worth around four times as much as its trade with the rest of the EU, the costs of these sorts of barriers could outweigh the gains from better access to European markets. The impact of Brexit on the economic and fiscal impacts of Scottish independence is therefore far from clear."* (IFS, 30 May)