

## Annex A

### Email from official to the First Minister providing draft speech

Please find attached the final version of the speech for Monday's event. Please note that in addition to the core material provided by officials, the speech contains some material produced by special advisers and in response to the First Minister's previous comments.

Comms will share news products for clearance shortly.

Should anything further be required, please don't hesitate to let me know.

Best regards  
[Redacted]

### BANS Economy speech 1

#### Industrial Policy in an Independent Scotland

Thank you Graeme, and for all of you for coming to this event today.

A new year is a time for optimism and for hope.

When it comes to the UK economy, however, it's fair to say that sense of hope and possibility has been lacking for far too many people.

And when it comes to UK politics, there is perhaps even less reason for optimism.

I have a "working assumption" for you:

That absence of a substantial policy debate at Westminster may be a reason why the rhetoric in this election year is likely to be particularly fierce as Labour and the Tories throw ever more ugly insults at each other.

I think it's fair to say that what is best for Scotland is likely to be a distant consideration as battle rages over slogans such as "stop the boats".

That means, for Scotland, and indeed the UK there is a gap.

Firstly, for a party that – amid that ugly, insular Westminster contest - will stand up for Scotland's interests – in all constitutional circumstances.

And secondly for a plan to build a stronger and fairer economy and a better country.

One that offers a more hopeful and optimistic future, and one that is rooted in evidence.

Today, I want to focus on what the evidence is telling us about the UK and the damage that decades of failed Westminster economic policy has caused here in Scotland, and indeed right across the UK.

But before I do that I'd like to start by making a broad political point.

The way I like to do politics, whenever possible, is to bring people together.

That means I always try to put myself in the other person's shoes; to see things from their point of view.

By the way that's not just the civil thing to do.

It's also about raw politics.

Because from a selfish political perspective I've never thought the: "I'm right, you're wrong, vote for me" approach is the most persuasive way of winning people over to your point of view.

And by properly listening to opposing points of view sometimes – even on such an apparently contentious subject as independence - there will be a realisation that our ambitions aren't so different.

Clearly the most important concern people have right now is the cost of living.

We all want the same things in life.

Our ambition is for our families to be able to get on in life.

To have good, fulfilling, well-paid jobs that they know will last.

Because with that sense of security a whole world of opportunity, good health and happiness opens up.

That is something I think we can all agree on.

But there are two other relevant considerations that I would argue there is broad consensus on in Scotland.

Firstly,

The way Westminster runs the economy isn't working for Scotland.

And secondly,

Brexit has damaged, and will continue to damage, the economy and therefore those aspirations for better living standards and greater security.

Turning now to the importance of seeing things from other people's point of view.

There will be those who will never support independence, no matter what I or others say.

That doesn't mean those people should be dismissed.

Far from it.

There is much to learn from an opposing perspective.

And we can all still engage, even if to disagree, respectfully.

There will be others who are sympathetic to independence but who are not yet persuaded or who don't think this is the right time.

It is my argument that independence is urgent.

It is urgent precisely because the cost of living is top of people's concerns.

Because it is through independence, and in particular the powerful combination of independence and EU membership that we can raise living standards.

That doesn't mean shouting independence ever louder.

It means engaging in a deliberative process where competing views are considered.

Scotland's political and media culture today doesn't always lend itself to such a deliberative process, but it is one to which I think we should always strive to engage in.

As part of presenting that evidence-based economic case for independence the Scottish Government has already published a number of papers in the Building a New Scotland series.

These have covered topics such as the macroeconomic framework for an independent Scotland, currency arrangements, EU membership and immigration.

Today I am delivering the first in a series of speeches to be delivered this year that will expand on the economic case for independence.

And because the idea is to promote a deliberative evidence based process these speeches are designed to be read, with full referencing, as much as delivered.

The series is called the "higher living standards" series because the aim is this: to show how with independence we can build a more productive economy that will generate higher living standards for the people of Scotland.

The topics we will cover during the series will include:

- building economic consensus to benefit business and wider society.
- investment
- workers' rights and the labour market
- ownership and governance
- and the focus of today's speech – which I will turn to shortly - industrial policy in an independent Scotland

But let me address firstly the urgency of the overall case.

It is urgent, and indeed essential, because I will argue, the low growth, high inequality, Brexit-based UK economy cannot provide long-term economic security and opportunity.

And it is urgent because damaging economic trends are becoming hard-wired into the UK and Scottish economies: regardless of which party is in charge at Westminster.

The longer we continue on that path, the harder it will be to change course.

So the idea of a cost-of-living crisis in the UK isn't entirely accurate.

The use of the word "crisis" implies something temporary.

But for far too many people in the UK, including Scotland, low living standards are a permanent feature of their lives.

This isn't a matter of changing government at Westminster.

Both Labour and the Conservatives agree the UK should be out of the EU and the huge European Single Market.

They both want to cut vital inward migration.

Those are just two examples which demonstrate that for the two main UK parties, Westminster *political* interests will always over-ride Scottish *economic* interests.

And that's a major problem.

Scotland has no macroeconomic powers, we have no control over migration, or employment policy or competition policy, or a host of other economic levers and we only have very limited borrowing powers for capital investment.

But this is about much more than individual policy levers.

This is about being locked into a failed UK economy.

And for most people the UK economy, run by Westminster, has indeed failed.

Analysis published in the Financial Times describes the UK as a "poor society with pockets of rich people."<sup>1</sup>

Real wages have been stagnant.

It's now estimated that wages will not recover to their 2008 level until 2028<sup>2</sup>.

Inequality in the UK surged in the 1980s and has remained high ever since<sup>3</sup>.

Indeed the share of total income going to the top 1% of people under the last Labour government was consistently higher than even under Margaret Thatcher.<sup>4</sup>

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<sup>1</sup> [Britain and the US are poor societies with some very rich people](#), Financial Times 16 September 2022

<sup>2</sup> [A Pre-Election Statement: Putting the Autumn Statement 2023 in context](#), Resolution Foundation November 2023, p13

<sup>3</sup> [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation, December 2023, p50-51

<sup>4</sup> See chart 1, [Income and wealth inequality explained in 5 charts](#), Institute for Fiscal Studies 9 November 2022

Productivity growth – the key driver of living standards – has been poor.

According to the Resolution Foundation, the UK's productivity gap with France, Germany and the US has doubled since 2008 to 18 per cent<sup>5</sup>.

Business investment is worryingly low<sup>6</sup>.

Public capital investment has also been both low and volatile<sup>7</sup>.

And the UK displays a remarkable level of geographic inequality, with a very unhealthy and economically unstable reliance on London<sup>8</sup>.

Such is the reliance on London that UK Governments, despite bemoaning the problem for years, end up only strengthening its comparative position.

Their fear is that if anything happened to the London economy the whole UK House of Cards will collapse.

So that leads to yet more investment in the UK capital and decisions such as scrapping the cap on bankers' bonuses in an attempt to maintain London's competitive position.

Just recently the UK Government scrapped the Birmingham-Manchester leg of HS2, claiming 'savings' of £36bn for alternative investment.

Last month they announced £235m funding for London roads using HS2 money. It seems when the UK Government talks of investment in the North they struggle to see past Watford.

It's impossible to see how any Westminster government, particularly with both main parties committed to Brexit, and with no real economic alternative being presented from Keir Starmer, can change this trend.

Continuing to put faith in failed Westminster economic policymaking I would argue is letting people in Scotland down.

Indeed it has been argued that UK economic performance has been so poor it has decoupled from the economic development path of other wealthy countries.<sup>9</sup>

I believe it is therefore our duty, as the Scottish Government, dedicated to working in the interests of the Scottish people, to set out an alternative path: one that leads to a renewed sense of possibility.

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<sup>5</sup> [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation, December 2023, p41

<sup>6</sup> Carella, A; Chen, R; Shao, X [Enhancing Business Investment in the United Kingdom](#), IMF 2023; [Beyond Boosterism](#), Resolution Foundation 2023; [Now is the time to confront UK's investment-phobia](#), IPPR, June 2023

<sup>7</sup> [Cutting the Cuts: how the public sector can play its part in ending the UK's low-investment rut](#), Resolution Foundation, 2023

<sup>8</sup> Productivity Insights Network (2019) [Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK](#) (University of Manchester) p14; [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation, December 2023, p60-62

<sup>9</sup> [Nostalgia for decline in deconvergent Britain](#), Adam Tooze, December 2022

It should then be for the people of Scotland to decide between those two futures.

And this is where the case for optimism that I referred to at the start of my remarks comes in.

That optimism is based on three factors:

Firstly, extraordinary resources such as renewable energy and key economic strengths such as our great universities of which this is a word-leading example.

Our longstanding capabilities in renewables, advanced engineering, food and drink, life sciences, creative industries and finance and business services are recognised the world over.

As well as these traditional strengths we have specialisms in industries of the future: in digital technology, including artificial intelligence and cyber security, building on Edinburgh's international prominence in data and AI and its aim to be the Data Capital of Europe,

Dundee of course has leadership in gaming – again boosted by the higher education sector.

And our aerospace and space technology sectors are thriving.

Secondly, our use of albeit limited devolved powers which we are using to help business and boost the economy as best we can.

In using those powers I have recognised the need to improve our relationship with business and the involvement of business in policymaking.

The Scottish Government has now put in place a framework to make that happen.

I recognise that - notwithstanding that business reset - the overall approach pursued by the Scottish Government will not always find universal favour.

Our approach is that of a social contract approach – where those on the highest incomes are asked to contribute a little more in tax to help fund universal benefits that help to build a more cohesive society, while allowing us to target resources and support for those that need it the most.

It's an approach typified by the fact that here in Scotland people don't pay prescription charges and that university tuition fees have been abolished.

This demonstrates the value of taking decisions here in Scotland - *for* Scotland.

This has not been achieved at the expense of relative economic performance - indeed since 2007 when the SNP took office, GDP per person has grown by 10% in Scotland, compared to 6% in the UK, and productivity has grown at an annual average rate of 1 per cent a year, compared with the UK's 0.5 per cent<sup>10</sup>.

But we should be under no illusions.

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<sup>10</sup> Scottish Government analysis using data from [Quarterly National Accounts Scotland: 2023 Quarter 2](#), Scottish Government, published 1 November 2023 and Office for National Statistics [Output per hour worked](#) published 24 October 2023

Independent estimates show that billions of pounds have already been wiped from the UK economy: compared with EU membership.

And that feeds through into the amount of money available to spend on public services like the NHS.

But it doesn't have to be this way.

And this leads me to the third reason for optimism - the real-life shining example for Scotland that we can aspire to: independent countries that are significantly fairer and wealthier than the UK.

Countries like Ireland, Norway and Denmark have both higher productivity and lower inequality than the UK<sup>11</sup>.

In other words they combine economic dynamism with social solidarity.

So with all our strengths, the key question is this: why not Scotland?

In a recent well-publicised report the Resolution Foundation said that if the United Kingdom had the average income and inequality of similar countries then the typical household would be £8,300 better off<sup>12</sup>.

If we use the same analysis for countries that are similar to Scotland, the prize for the typical Scottish household would be even greater.

They would be £10,200 better off<sup>13</sup>.

That then is the huge prize of independence.

Not to match the performance of those independent countries overnight, no-one is saying that, but to start catching-up – so that Scotland becomes more normal for nations that are like us.

So how do we achieve that more normal economic performance?

One of the striking things about the national economic debate in Scotland, and across the UK, is in some respects the absence of one.

The UK based parties – Labour, the Conservatives and Liberal Democrats offer little hope to the people of the UK, let alone here in Scotland.

They not only want to continue with an economic model that has had such disastrous consequences for households up and down the country, they all agree that the economic powers I referenced earlier should remain at Westminster.

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<sup>11</sup> [Building a New Scotland: Independence in the modern world. Wealthier, Happier, Fairer: why not Scotland?](#)

<sup>12</sup> [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation, December 2023 p269

<sup>13</sup> This analysis broadly follows the methodology outlined in Chapter 9 of [Ending Stagnation: A New Economic Strategy for Britain \(resolutionfoundation.org\)](#). The list of comparator countries is defined in [Independence in the Modern World](#), Scottish Government, June 2024. Comparable data on household incomes and income shares is sourced from OECD Income Distribution Database for all countries; Scottish data is sourced from [Poverty and Income Inequality in Scotland 2019-22 \(data.gov.scot\)](#)

Even within the confines of the current constitutional setup, the UK-based parties have nothing different, new or bold to offer the people of Scotland.

They are not interested in what we could do with macroeconomic and other economic powers if they were under the control of the Scottish Parliament.

I am.

Indeed, given the failed UK economy, my over-riding ambition is to demonstrate how we can build a new, stronger, and more productive Scottish economy with the powers of independence.

Because that will mean higher living standards for the people of this country.

That brings me to the second half of this speech: industrial policy in an independent Scotland: which will be one of the keystones of the new, better economy I believe is possible.

Let me be clear at this point about the general approach.

To get to the more normal higher household incomes enjoyed by independent countries like Scotland the most important action we can take by far is to build strong, long-lasting, resilient foundations.

There are three foundations for industrial policy in an independent Scotland.

Crucially, to work they all have to come as a package.

Individually they won't have the desired effect without interacting with the others.

These are not rabbits out of the hat designed for a day's headlines.

Much more importantly they will drive more effective policy and produce better outcomes.

The three foundations for a successful industrial policy for an independent Scotland are as follows:

- Join the EU
- A dynamic government ministry to drive the policy and consensus building institutions
- Large-scale public investment in key areas of comparative advantage.

I'll return to these measures later, but it might be helpful to pause and consider why industrial policy is currently so topical.

The economist Diane Coyle recently joked that '*Like flared trousers, platform heels, inflation and other 1970s phenomena, industrial policy is back in fashion*'.<sup>14</sup>

Industrial policy – the idea of direct government intervention to boost specific sectors - is a fiercely contested area of economics. It has provoked debate since at least 1791 when the

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<sup>14</sup> [If the UK doesn't play the strategic policy game, of course it will lose | Financial Times](#)



first US Treasury Secretary – and son of a Scot - Alexander Hamilton published his report *On the Subject of Manufactures*<sup>15</sup>. And the debate has often been heated and ideological in nature.

For a prolonged period between the 1970s and the global financial crisis, debate was dominated by industrial policy's opponents: some of whom believe that there is essentially no, or at least a very limited role for government, in economic development.<sup>16</sup>

Throughout this period industrial policy was often – unfairly I would argue - caricatured as government attempts to 'pick winners'. And it is undoubtedly true that there were failures.

But the significant successes were too often overlooked.

These include the pivotal role of state industrial policy in the rapid development of Japan, Korea and Taiwan as well as the 'de-facto industrial policies' pursued in the US through the Pentagon and NASA which contributed so substantially to general technological progress<sup>17</sup>.

Today across the globe explicit industrial policy is back.

We can see that by looking at what's been happening in the US, China and the European Union.

In October last year, Brian Deese, then Chair of President Biden's National Economic Council explained the administration's new approach with great force and clarity.

He explained that a modern American industrial policy '*identifies areas where relying on private industry, on its own, will not mobilize the investment necessary to achieve our core economic and national security interests*'.

But it doesn't seek to replace or sideline the private sector. Rather, it uses public investment to '*crowd in more private investment*' in order to strengthen the national bottom line."<sup>18</sup>

This speech and others<sup>19</sup> signal a bold commitment to industrial policy, a concept that was long out of fashion amongst American political and policy elites.

This radical departure in US economic policy is reflected in recent legislation, especially<sup>20</sup>:

- The Creating Helpful Incentives to Produce Semiconductors and Science (or 'CHIPS') Act introduced in August 2022; and,

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<sup>15</sup> Hamilton, A [On the Subject of Manufactures](#) 1791

<sup>16</sup> Stiglitz et al summarised the 'standard argument' as follows: "*the standard argument was that markets were efficient so there was no need for government to intervene either in the sector allocation of resources or in the choices of technique. And even if markets were not efficient, governments were not likely to improve things*" in Stiglitz, J, Lin, J and Mongu, C [The Rejuvenation of Industrial Policy](#), World Bank 2013

<sup>17</sup> There is a large literature on these industrial policy success stories, but classic texts include: Johnson, C *MITI and the Japanese Miracle* Stanford University Press 1971; Amsden, A *Asia's Next Giant: South Korea and Late Industrialisation* Oxford University Press 1992; Wade, R *Governing the Market* Princeton University Press 2003 and Mazzucato, M *The Entrepreneurial State* Penguin 2013

<sup>18</sup> [Remarks on Executing a Modern American Industrial Strategy by NEC Director Brian Deese](#), The White House, October 13 2022

<sup>19</sup> E.g. [Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution](#), The White House April 27 2023

<sup>20</sup> The administration's new economic approach is also reflected in other legislation such as the Infrastructure Investment and Jobs Act (2021)

- The Inflation Reduction Act (IRA) which provides \$369bn of climate-related tax credits, subsidies and loans to reduce greenhouse gas emissions, build US technology leadership in a range of green sectors and creating good jobs<sup>21</sup>.

The US is explicitly trying to shift the industrial foundations of their country and, somewhat controversially, prioritise domestic production.

And the early signs are that the impact on the US economy is positive. U.S. Treasury analysis confirms that real manufacturing construction spending has doubled since the end of 2021.

The increase coincides with the introduction of the IRA and CHIPS Acts and similar trends are not observed in any other advanced economy.<sup>22</sup> Analyses indicate that the longer-term impact is likely to be positive and significant<sup>23</sup>.

Turning now to China.

China's commitment to industrial policy has strengthened in recent years.

*Made in China 2025*, launched in 2015, is the Chinese Government's ten-year industrial plan to rotate their manufacturing base away from low value, low wage activities towards higher-tech, higher value, future-facing industries.

Chief amongst these are electric vehicles, next-generation information technology and telecommunications, AI and advanced robotics.<sup>24</sup>

The Plan includes the setting of specific targets and extensive direct subsidies, as well as encouraging foreign investment and acquisitions.

Inevitably, other major economies viewed the 10 Year Plan as not only a threat to global trade rules but also a security risk<sup>25</sup>. It is no secret that China's development helps to explain recent strategy in the US and EU.

And given the Scottish Government's aspiration for Scotland to rejoin the EU as an independent country, it is EU policy that is most relevant for us.

The EU has shifted towards pursuing a policy of 'strategic autonomy'<sup>26</sup> while ensuring Europe is globally competitive.

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<sup>21</sup> Inflation Reduction Act [Guidebook](#) 2022

<sup>22</sup> [Unpacking the Boom in U.S. Construction of Manufacturing Facilities | U.S. Department of the Treasury](#)

<sup>23</sup> [United States: Staff Report](#) International Monetary Fund, June 2023, finds that the Inflation Reduction Act will 'induce an increase in the share of electricity generation from renewables by 2030 by around 19 percentage points relative to a baseline without the IRA'. It also finds that the IRA 'climate measures would add around 0.1% to the level of GDP by 2030'. The same measures 'are expected to reduce carbon emissions by 12% by 2020'. See also [Assessing the Macroeconomic Consequences of the Inflation Reduction Act](#), Moody's Analytics 2022, which estimates that real GDP could be approximately 0.1% higher in the next decade. A recent [White House Fact Sheet](#) cites evidence showing that 'the Inflation Reduction Act's clean energy and climate provisions have created more than 170,000 clean energy jobs' and projected to create 1.5 million more additional jobs over the next decade.

<sup>24</sup> [Is 'Made in China 2025' a Threat to Global Trade? | Council on Foreign Relations \(cfr.org\)](#)

<sup>25</sup> [Is 'Made in China 2025' a Threat to Global Trade? | Council on Foreign Relations \(cfr.org\)](#)

<sup>26</sup> [Going big for EU industry - Op-ed article by President Charles Michel - Consilium \(europa.eu\)](#)

This will mean that life will inevitably become colder for non-EU countries seeking to do business with the colossal European Single Market.

It has introduced a series of high-profile measures in response to developments in the US: the EU 'Chips Act'<sup>27</sup>, the 'Critical Raw Materials Act'<sup>28</sup>, and perhaps most crucially for Scotland the Green Deal Industrial Plan<sup>29</sup>

The Green Deal Industrial Plan aims to build industrial capacity in green technologies thereby accelerating the transition to net zero. The EU Commission has pledged to mobilise at least €1 trillion in sustainable investments over the next decade.<sup>30</sup>

Ursula von der Leyen, President of the European Commission argues that:

'We have a once in a generation opportunity to show the way with speed, ambition and a sense of purpose to secure the EU's industrial lead in the fast-growing net-zero technology sector'.

The EU's approach is, in part, aimed at defending businesses and workers from the potential adverse side effects of US and Chinese industrial policies.

There is an ongoing debate among EU countries about the scale and nature of that approach.

But it is clear that the global financial crisis and pandemic have upended many of the economic orthodoxies that hitherto influenced policy.

Industrial policy is back on the table and the world's great economic powers are intervening at a rate and scale not witnessed for decades.

In all this, where does the UK stand?

Despite its relatively poor economic performance recent events don't appear to have provoked the UK Government into any new - let alone radical - thinking on industrial policy.

While the US intervenes to stimulate investment in the industries of the future, enhance economic resilience and shape a fairer economy – and the EU plans something similar – ideological antipathy prevents the UK Government from taking a similarly creative or proactive approach.

Given the scale of Scotland's renewables potential, and the need for investment so that potential can be realised, this inertia from the UK Government is simply unforgivable.

Of course the UK's track record on industrial policy invites reflection. While it is possible to trace failures back many decades<sup>31</sup> the recent record of the Conservative Government since 2010 begs particular interrogation.

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<sup>27</sup> [European Chips Act \(europa.eu\)](https://europa.eu/european-council/story/european-chips-act)

<sup>28</sup> [European Critical Raw Materials Act \(europa.eu\)](https://europa.eu/european-council/story/european-critical-raw-materials-act)

<sup>29</sup> [The Green Deal Industrial Plan \(europa.eu\)](https://europa.eu/european-council/story/the-green-deal-industrial-plan)

<sup>30</sup> [Finance and the Green Deal \(europa.eu\)](https://europa.eu/european-council/story/finance-and-the-green-deal)

<sup>31</sup> Often cited examples include both efforts to stem deindustrialisation through nationalisation and subsidy (e.g. British Steel, British Leyland) and attempts to build new engines of growth (e.g. the Advanced Gas-cooled Reactor).

This period has witnessed a rapid turnover in Ministers, an inability to commit to any specific strategy or to effectively co-ordinate related streams of activity.

There has been similar churn in related institutions – institutions which research shows to be critical to the success of industrial policy

The Industrial Strategy Council established in 2018 was abolished in 2021 just as it was gaining in momentum and status.

Diane Coyle summarises the problem: '*UK industrial policy has been characterised by frequent policy reversals and announcements driven by political cycles*' and there is an enduring inability to effectively co-ordinate the '*multiple public bodies, departments and levels of government responsible for its delivery*'.<sup>32</sup>

Given the state of the polls it seems likely there will be change of government at Westminster next year.

But despite the Labour Party's apparent admiration for the US approach, Keir Starmer seems more concerned about neutralising Conservative attacks than sticking to principles and commitments.

We can see that over the now major question marks over the timing and scale of its Green Investment Plan.

In a speech earlier this year, Jake Sullivan, President Biden's National Security Adviser, explained that the US will 'unapologetically pursue our industrial strategy at home' while being 'unambiguously committed to not leaving our friends behind. We want them to join us. We need them to join us'<sup>33</sup>.

He talked of the need to move beyond 'traditional trade deals to innovative new economic partnerships focused on the core challenges of our time'. He spoke of partnerships with the EU, Japan, Korea, Taiwan, Canada, India, Brazil, Indonesia, and Angola.

He discussed the Americas Partnership for Economic Prosperity, the Indo-Pacific Economic Framework and the US-EU Trade and Technology Council.

One country was conspicuous by its absence from this discussion: the UK.

So, if Westminster is failing us, and the current restrictions of devolution are inhibiting us, the question naturally turns to *what could we do in an independent Scotland?*

Crucially for Scotland, industrial policy can no longer be synonymous just with manufacturing – any effective industrial policy will have to recognise, and seek to expand on, Scotland's dynamic, outward-looking and highly productive tradable services.

We will focus more on the crucial services sector later in the series.

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<sup>32</sup> Coyle, D and Muhtar, A [UK's Industrial Policy: Learning from the past?](#) The Productivity Institute 2021

<sup>33</sup> [Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution](#), The White House April 27 2023

It is also important to stress that we are not sitting on our hands waiting for constitutional change to happen. Rather, we are working hard to boost the economy within the tight constraints of the current devolution settlement.

That work will strengthen the starting point for effective industrial policy post-independence.

For instance, we have invested £75 million in the National Manufacturing Institute Scotland which opened its flagship building in Renfrewshire in June.

Our Space Strategy - lays the foundations for capturing a £4bn share of the global space market.

It's early successes, include the decision by US-based Mangata Networks to establish a major satellite manufacturing facility in Ayrshire, creating up to 575 high-skilled, high-wage jobs.

And, most relevantly in respect to future industrial policy, we are developing our Green Industrial Strategy for Scotland, within the current constitutional settlement, to target the biggest areas of opportunity as the world moves from a reliance on fossil fuels to renewables and sustainable jobs.

Our recent Budget provided investment of £66.9m to kickstart our commitment of up to £500m to anchor a new offshore wind supply chain in Scotland.

This will stimulate and support private investment in the infrastructure and manufacturing facilities critical to the growth of the sector.

And rapid progress is already underway. The total output supported by the renewable energy sector in Scotland nearly doubled to £10.1 bn, and total full-time employment increased from 27,000 to 42,000 over the last year<sup>34</sup>.

But as we have seen recently, we are at the mercy of volatile and unstable UK energy and climate change policy.

Let me turn now to independence and the three key policies I referenced at the start of this speech that will be most effective:

- Joining the EU as an independent country.
- Establishing a dynamic government ministry for industrial policy that provides coherence within Government, but also with key external agencies and businesses.
- Major public investment in key areas of comparative advantage.

.So firstly the European Union.

An independent Scotland within the EU would be able to focus and align policy in order to maximise the economic benefits of our existing strengths as well as support key areas of potential.

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<sup>34</sup> [The Economic Impact of Scotland's Renewable Energy Sector – 2023 Update](#), Fraser of Allander, December 2023

Crucially, as a member state in its own right for the first time Scotland would be fully involved in policy development and decision making.

Scotland's voice in European industrial policy would be bolstered by the disproportionate role we could play in the production of renewable energy helping to meet climate change targets.

The EU's Green Deal Industrial Plan has the potential to support the rapid development of Scotland's green sectors by providing a predictable and simplified regulatory environment, additional sources of finance, measures to support skills development and access to the EU and other markets.

Let me discuss two specific examples:

First, Carbon Capture and Storage or CCS.

CCS involves capturing CO<sub>2</sub> at source and storing permanently under the North Sea.

It is the only credible route for many of our key strategic industries to decarbonise. The Climate Change Committee describes CCS as a "necessity, not an option".

Scotland is one of the best placed nations in Europe to deploy CCS due to our unrivalled access to vast storage potential in the North Sea.

When you take that geological endowment, add it to our existing oil and gas infrastructure and align with our expertise and world-class workforce, you can see how Scotland has the opportunity to be at the centre of a European hub for the importation and storage of CO<sub>2</sub> from Europe.

Under Westminster policy control, there remains a disappointing lack of detail on timeframes and funding for the Acorn CCS project and the range of CO<sub>2</sub> capture projects at sites in Peterhead, Grangemouth and Mossmorran that comprise the Scottish cluster

The EU's proposed Net Zero Industry Act, however, sets a 50 million ton per annum target for CO<sub>2</sub> storage by 2030. In Scotland we have much more storage capacity than we need - in fact 18% of Europe's potential storage<sup>35</sup>.

It is an incredible strategic asset that we want to share with our European partners as we collectively tackle the climate emergency.

To do so will require interconnected CO<sub>2</sub> transport and storage networks, drawing upon Peterhead port with its proximity to the Acorn project at St Fergus. This system could foreseeably develop in the North Sea region by the mid-2030s.

The second example is hydrogen, another area of significant potential for Scotland.

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<sup>35</sup> Scotland has 18% of Europe's carbon dioxide storage capacity based on an estimated 46Gt in Scotland and 260Gt in Europe. This calculation is based on the following sources: Scottish Centre for Carbon Storage (2009) Opportunities for CO<sub>2</sub> Storage around Scotland – an integrated strategic research study and Turrell, W et al (2022) [A Review of National Monitoring Requirements to Support Offshore Carbon Capture and Storage](#) (Frontiers in Marine Science) also Zhang et al. (2022) [European carbon storage resource requirements of climate change mitigation targets paper](#) (Science Direct).



Green hydrogen, made by using renewable electricity, will be needed at scale for Scotland to achieve energy security and to tackle climate change.

The production of hydrogen offers a new industrial opportunity for Scotland; one that could provide significant employment, a valuable supply chain and major export opportunities.

The EU's Hydrogen Strategy aims to increase hydrogen from its current 2% to 13-14% of Europe's energy mix by 2050<sup>36</sup>.

Scotland is well-placed to contribute to that target.

We have the resources, the people, and the ambition to realise the benefits of becoming a leading hydrogen nation.

As an EU member state, common certification and standards would facilitate the export of hydrogen to other members.

Scotland would also be able to access the various EU funding programmes aimed at boosting hydrogen production.

Therefore, as an independent state with greater control over its own energy system, and an EU member able to exploit the advantages of the single market, Scotland could:

- supply hydrogen to nations – such as Germany - where we know demand will be high and where there is already significant interest in Scotland's hydrogen potential.
- help Europe meet its Co2 storage targets while building a world leading CCS industry with significant export potential.

In so doing, we can diversify the market for renewable energy in Scotland while strengthening energy security and industrial competitiveness in Europe.

An independent Scotland in the EU could be a prime location for currently high emission sectors such as chemicals, aluminium, steel and data processing that will have to decarbonise.

Driven by hydrogen and other renewables, and with the CO2 storage capacity provide by CCS, these industries would be able to access and serve the European single market, without the trade or regulatory barriers currently facing Scotland in the UK.

Let me turn now to effective government and institution building.

In an independent Scotland we would establish a new **Ministry for Industrial Policy** to **ensure** industrial policy has appropriate profile and status within and beyond government.

This new government department would have ultimate responsibility for the design, and delivery of industrial policy with the new policy levers of independence.

A stand- alone Ministry will demonstrate strong, long-term commitment to industrial policy.

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<sup>36</sup> [A Hydrogen Strategy for a Climate-Neutral Europe](#), European Commission, 2020

The new Ministry will be complemented by an **Industrial Policy Council** to provide independent advice, direction, monitoring and evaluation.

It will help to build buy-in and consensus on strategy design and, crucially, contribute to identifying what is working and what is not.

The Council will comprise experts and practitioners from business, academia and unions and draw in expertise and experience from beyond Scotland's borders.

It will be established on a statutory footing in order to demonstrate long-term commitment and avoid the constant institutional tinkering that has plagued UK industrial policy. Members will be appointed for a minimum term.

The Council's role and status will reflect the importance placed on industrial policy – it will engage directly with the First Minister and all of government, not just its own Ministry.

It will also have an important role in promoting innovation and maximising new economic opportunities.

A key initial task will be to ensure the broader institutional infrastructure – including the enterprise networks, Scottish National Investment Bank, Skills Development Scotland and relevant industry leadership groups - is working effectively in the new context of independence, in pursuit of agreed industrial policy goals.

[As part of the inclusive, deliberative process I am trying to encourage, I would welcome views on the structural remit and make-up of the Council].

The Scottish Government will have more to say about our approach to developing consensus building institutions in coming speeches.

The third foundation is targeted capital investment.

As I said earlier the UK has a poor record on public investment.

In the Autumn Statement the Chancellor announced a real terms cut in the UK Government's capital investment budget.

This has major knock-on effects for Scotland. Our capital block grant is forecast to contract by almost 10% in real terms over the next 5 years.

But this goes far beyond one government.

The Resolution Foundation has found that in the 40 years to 2022, total fixed investment in the UK was the lowest in the G7<sup>37</sup>.

To kick-start investment in newly independent Scotland, we would set up a special fund.

Our initial estimate is that we would use the fund to undertake capital spending of up to £20 billion over the first decade of independence.

It would be financed through oil revenues and if needed borrowing.

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<sup>37</sup> Pg 147 [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation 2022



Scottish Government modelling has demonstrated that investment spending leads to an increase in GDP, long-term productive capacity and provides a sustained boost to the economy<sup>38</sup>.

We would also seek to align the Fund's priorities with the European Commission's priorities and Scotland's industrial policy.

EU connectivity – the ports, pipelines and interconnectors – required to plug Scotland directly into EU markets and maximise the benefits from key sectors such as hydrogen, CCS and floating offshore wind will be a priority for the Fund.

Indeed floating offshore wind is a huge opportunity for Scotland.

With our expertise in oil and gas extraction in the North Sea there is a clear read across in skills.

And we are already home to the two largest floating wind farms in the world<sup>39</sup>.

But to take full advantage a significant investment in port facilities is required.

Clearly with the normal capital borrowing powers of an independent country such investment becomes much more achievable.

In conclusion,

The UK is abnormal in respect of its poor economic performance compared with its peers.

That means living standards are also abnormally low.

The UK is the poor man of northwest Europe

Those trends were already taking hold before Brexit.

Leaving the EU means a further long-term hit to the economy.

All the while, the Tories and Labour offer nothing new, no hope or alternative to the suffering caused by failed Westminster economic policies.

But for Scotland there is a choice.

We can accept our place as part of this low productivity, high inequality economic model.

Or we can decide to chart a different, better course.

That means taking on the powers we need to achieve the higher, more normal living standards enjoyed by comparable independent countries.

No-one is expecting dramatic overnight change.

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<sup>38</sup> Pgs 56-57 [A Stronger Economy with Independence](#), Scottish Government 2022

<sup>39</sup> [Floating wind projects in Scotland | HIE \(offshorewindscotland.org.uk\)](#)

But with our resources, advantages, key sectors and talents we can start that journey to economic normality.

That begins with firm foundations for key building blocks, such as an industrial policy, for a new and better economy.

And this is urgent because people are losing hope.

They look at Westminster and see no-one offering them a different choice, just more of the same decline, but managed more competently than the current Tory Government.

We must have higher ambition, not only because it is the right thing to do, but because of the enormous benefit it could have for Scotland's economy and for our planet.

In the coming months, I look forward to giving further detail of the bold alternative we have to the failing Westminster economic model. And I look forward to engaging with the people, businesses and communities of Scotland in what I hope will be a great, shared national endeavour. Because I know, we can do so much better.

## Annex B

### Document explaining the £10,200 figure

#### CFD - Speech 1 – Resolution Foundation Replication

*“In a recent well-publicised report the Resolution Foundation said that if the United Kingdom had the average income and inequality of similar countries then the typical household would be £8,300 better off<sup>40</sup>.*

*If we use the same analysis for countries that are similar to Scotland, the prize for the typical Scottish household would be even greater. They would be £10,200 better off<sup>41</sup>.”*

#### Further background on the modelling for Scotland

- In the original Resolution Foundation (RF) report the £8,300 figure for the UK is estimated as an increase in income for the typical household if the UK **matched the level of income and inequality** in the comparator countries (Australia, Canada, France, Germany and the Netherlands).
- RF source comparable data on household incomes and income shares from OECD [Income Distribution Database](#) (IDD) for the UK and comparator countries.
- The list of comparator countries for Scotland is defined in [Independence in the modern world. Wealthier, happier, fairer: why not Scotland? - summary - gov.scot \(www.gov.scot\)](#): Denmark, Sweden, Finland, Norway, Ireland, Switzerland, Austria, Belgium and the Netherlands. Data on Iceland is not available in the IDD database.

#### Matching income

- Following the approach outlined by RF, the average level of income is calculated for the international comparator using household disposable income measured in \$PPP in IDD.
- An equivalent figure in \$PPP is calculated for Scotland by scaling the UK figure from the OECD IID with the ratio of median incomes<sup>42</sup> for ScotlandUK (the ratio of mean incomes is very similar).
- Closing the gap with the international comparator in terms of the level of income is equivalent to increasing the median household income by 29% in Scotland.
- It is assumed that all households across the income distribution benefit from the increase.

#### Matching inequality

- To calculate the increase in income from matching inequality, RF analysis uses data on income shares held by different quintiles of the income distribution from IDD.
- For Scotland, we source equivalent data on income shares from the Scottish Government publication [Poverty and Income Inequality in Scotland 2019-22 \(data.gov.scot\)](#)
- The SG source also relies on the underlying data from the Family Resources Survey just like the OECD IDD database is for the UK. It should be noted that income shares may be calculated slightly differently in both datasets but these differences are expected to be small following a consultation with SG team that produce the Scottish publication.
- The average income shares for the international comparator are calculated and are assumed to replace the current income shares for Scotland.
- The percentage change in the share held by each quintile represents the % change in the average income in each quintile.

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<sup>40</sup> [Ending Stagnation: A New Economic Strategy for Britain](#), Resolution Foundation, December 2023 p269

<sup>41</sup> This analysis broadly follows the methodology outlined in Chapter 9 of [Ending Stagnation: A New Economic Strategy for Britain \(resolutionfoundation.org\)](#). The list of comparator countries is defined in [Independence in the Modern World](#), Scottish Government, June 2024. Comparable data on household incomes and income shares is sourced from OECD Income Distribution Database for all countries; Scottish data is sourced from [Poverty and Income Inequality in Scotland 2019-22 \(data.gov.scot\)](#)

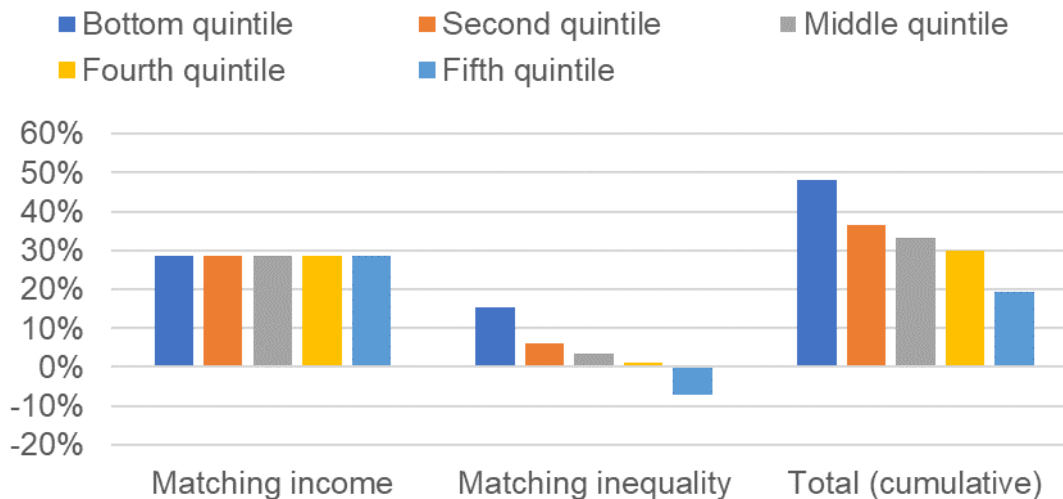
<sup>42</sup> Sourced from the Households Below Average Income (HBAI) dataset [Stat-Xplore - Home \(dwp.gov.uk\)](#)

- Following the discussion with Resolution Foundation analysts to clarify their approach, the % change in the average income of the middle quintile represents the % change in the median household income across the whole distribution. This change for Scotland is estimated at 3.6%.

### Total effect

- Combining both the increase in the median income from matching the level of income (+29%) and inequality (+3.6%) of the international comparator increases income in Scotland by 33% (cumulatively).
- The monetary impact of increasing the median income by 33% in Scotland is £10,200.<sup>43</sup>

Figure 1 - Effect of Scotland matching the level of income and inequality of BANS countries, by income quintile



Source: SG analysis

<sup>43</sup> The Resolution Foundation report uses the nowcasted median income of £33,200 for the UK as a whole for 2022/23 (disposable house). An equivalent figure for Scotland is calculated to align with the Resolution Foundation analysis using the ratio of median incomes for Scotland and the UK.

## Annex C

*Any details, if they exist, of concerns raised about the political nature of the speech given it was presented in Mr Yousaf's role as First Minister*

### Item 1 – Email extracts regarding political content contained within the speech.

Thanks Joe,

My understanding is that this is not unusual for a FM speech and that we simply drop the political content from the version that goes on SG website.

But agree there is some risk here and therefore grateful for the views of others? More than happy to contact Michael if necessary.

[Redacted]

**From:** Joe Griffin <[Joe.Griffin@gov.scot](mailto:Joe.Griffin@gov.scot)>

Thanks [Redacted]. You are right about the political content, which, more specifically, is party political and, in places, critical of the Labour Party, as well as the Conservatives. I'm not expert on the propriety of when an SG speech becomes an SNP speech, and it's FM's prerogative to flex between the two, but it might be worth checking out. If we draw too much attention to matters of propriety, we will merely drown out any consideration of the substantive content. Is that something you could investigate please – Dominic, Brian and his team could help. I may be wrong, but it's worth checking. Potentially Michael Chalmers, as Director for Propriety could get involved too.

### Item 2 – Email extract regarding political content contained in the speech.

Thank you, Brian. A few colleagues have flagged this to me and we will need to ensure careful handling to ensure appropriate SG support/comms given the political language of some of this (and the potential for this language to change closer to delivery). V helpful to note the assurance process underway.

**From:** Brian Dornan <[Brian.Dornan@gov.scot](mailto:Brian.Dornan@gov.scot)>

[Redacted]

I'm sending on the latest draft of the 8 Jan economy speech, as we discussed. Not that this is currently being assured by the chief analysts and relevant DGs, with a deadline for that of 22 December. Special Advisers drafted the more political content, which we can remove from any SG published version.

### Item 3 – Email extracts regarding political content

[Redacted]

We have worked closely with OCEA colleagues throughout the process and the speech has been checked by Gary, Chief Statistician, Chief Social Researcher and Exchequer colleagues.

Political content has been added to the speech by spads and FM.

**From:** Lesley Fraser <[Lesley.Fraser@gov.scot](mailto:Lesley.Fraser@gov.scot)>

I attach here for info/ awareness a version of the draft that [Redacted] kindly provided this morning which I have highlighted in yellow for areas which look to me as though they are either making party political points (which we would not publish

**From:** Lesley Fraser <[Lesley.Fraser@gov.scot](mailto:Lesley.Fraser@gov.scot)>

[Redacted] confirms precedent for us publishing on the SG website FM's speeches including on political matters – but with the political content removed and noted that it is removed.

#### **Item 4 – Email extract from JP Marks to Julie Grant**

**From:** Julie Grant <[Julie.Grant@gov.scot](mailto:Julie.Grant@gov.scot)>

Andy and I have reviewed, please find attached proposed redactions to allow for publication on gov.scot.

**From:** John-Paul Marks <[John-Paul.Marks@gov.scot](mailto:John-Paul.Marks@gov.scot)>

I will await final assurances please Julie/Andy on redactions to confirm any content published on the SG website doesn't contain any party political content;

#### **Item 5 – Email from JP Marks regarding the social media content**

**From:** John-Paul Marks <[John-Paul.Marks@gov.scot](mailto:John-Paul.Marks@gov.scot)>

Please double check to ensure any and all party political content included in the speech is redacted when published on the SG website, to support FM in being consistent with his Ministerial Code.

[Redacted]

See latest version of FM speech also attached for context. Our intent is to publish this on gov.scot (with note to say political content has been removed) after it has been checked against delivery