Dear Christina,

Thank you for your letter following up the request for additional information from Committee members at the European and External Relations Committee on 12th December 2013.

The committee asked for information on the process of ratification and this is provided at Annex 1.

The committee also asked for further information on those experts who have commented on the currency position of an independent Scotland. I have therefore provided a list of supportive quotes on the Scottish Government’s proposals on currency in Annex 2.

I look forward to following the progress of the Committee’s enquiry.

NICOLA STURGEON
Annex 1 - Note on ratification

Ratification is the process whereby a country gives its consent to an international agreement (or Treaty) entered into by its government.

In each Member State the process of ratification by the national parliament will be in accordance with the relevant constitutional provisions of that country. These provisions may of course change from time to time in the Member State concerned. For example, the UK’s procedure changed under the European Union Act 2011. As such the procedure for Treaty ratification is at the discretion of individual Member States.

The agreement concluded between the EU Member States and the country in question, which is to be ratified by each Member State parliament, stipulates a date by which the ratification process is to be completed.

On the basis that Scotland has been part of the EU for over 40 years and is not seeking any revision to the current terms of Scotland’s membership of the EU, the Scottish Government believes the negotiations settling the terms of Scotland’s independent EU membership and the subsequent ratification can be completed by the date on which Scotland becomes an independent state.
Annex 2 - Currency Quotes

EURO

Prime Minister, David Cameron, BBC News, 14 December 2012: “Not all countries in the European Union will join the Euro. Not just Britain, we have an absolute copper bottomed opt out, written into all of the treaties, there is no obligation on us to join the Euro. But, I believe, there are other countries in the European Union who have no early, or immediate or indeed, longer than that prospects of joining the euro…”

Foreign Affairs Committee “The future of the European Union: UK Government policy” Report, 11 June 2013 “However, the EU cannot enforce other Member States’ Treaty obligation to adopt the Euro. Member States which do not wish to join the Eurozone may simply ensure that they do not meet the criteria required to do so, as Sweden has done since its accession to the EU in 1995.”

STERLING

Letter from 11 Scottish Business Leaders (Scotsman 5 December 2013) “No matter one’s views on the referendum, it is clearly the case that Scotland and the rest of the UK should maintain a sterling area if there is independence.”

“We support the Scottish Government’s inclusion in the white paper of a sterling area and common market for the free movement of trade, money, goods, services, capital and people. This is what’s on offer to voters”

Valentin Marinov head of European Group-of-10 currency strategy, Citigroup (Source: Bloomberg 2 Dec2013) “Given the close economic ties between the two and assuming that these ties need not weaken going forward, the potential introduction of a currency union need not affect significantly trade and other flows,”

Oliver Harvey - Deutsche Bank (Source: Bloomberg 2 December 2013) “It wouldn’t make any sense for Scotland not to have the pound”…“Its economy is very highly correlated with the rest of the U.K”

Professor Brian Ashcroft, Scottish Economy Watch blog, 26 April 2013
“An independent Scotland would probably be better adopting sterling if it can get an agreement with the UK government.”

Professor Brian Ashcroft, Scottish Economy Watch blog, 29th November 2012: “With a geographical share of oil revenues Scotland is close to paying its way, labour productivity levels are almost identical to the UK…although total factor productivity growth could be somewhat lower. Moreover, Scotland is a well-developed market economy trading with many nations…For these reasons it makes sense for Scotland, if independent, to stick with sterling”

Professor Charlie Jeffery, House of Lords Economic Affairs Committee, 24 October 2012:
"...the pound sterling is the best option in an independent Scotland."

(NIESR) National Institute of Economic and Social Research, Economic Review, 3rd February 2013:
"it seems likely therefore that Scotland and the rest of the UK are an optimal currency area, so it would be sensible for an independent Scotland to continue to use the pound sterling."

Professor David Blanchflower, BBC Radio Scotland, 22nd April 2013:
"Should the people of Scotland choose independence in next year’s referendum it would make sense for Scotland to enter a formal monetary union with the rest of the UK with the Bank of England operating as central bank for the common monetary area.”

Alistair Darling, Newsnight Scotland, 10 January 2013:
"Of course – of course it would be desirable to have a currency union...If you have independence or separation, of course the currency union is logical".

Professor Alex Kemp, House of Lords Economic Affairs Committee inquiry, 24 October 2012:
"If Scotland were in the sterling area, it would help sterling as well, as there would be a need to acquire sterling to buy the oil."

Jeremy Peat, House of Lords Economic Affairs Committee inquiry, 24 October 2012:
"There are a whole host of interdependencies between the economy of Scotland and the economy of the rest of the United Kingdom. That constitutes a very good reason, at least initially, for the maintenance of exchange rates to create certainty between Scotland and the rest of the UK, and hence continuing with sterling as the currency has advantages."

John McLaren, Centre for Public Policy for Regions, BBC Newsnight Scotland, 23rd April 2013:
"The fact that the Scottish Government is keen on keeping some kind of Sterling connection means that it’s likely that will go forward. I can’t see the UK Government being so obstructive as to put conditions in place that are unacceptable. So at the minute that looks like the favourite.”

Crawford Beveridge, Chairman of Fiscal Commission Working Group, on the Scottish Government Road to 2014 Blog, 19th April 2013:
"The working group's report was clear that the best currency option for Scotland – and the UK – would be to retain Sterling and continue with the Bank of England operating across a Sterling Zone as part of a formal monetary union”

Fiscal Commission Working Group – First Report Macroeconomic Framework (Paragraph 2.4)
"The Working Group commends to the Scottish Government retaining Sterling as part of a formal monetary union, and believes that this provides a strong overarching framework for Scotland post-independence.”
Sir Mervyn King, House of Lords Select Committee on Economic Affairs – 27th March 2012

The Chairman: “Has the Bank done any work on the implications and options for the operation for monetary policy and bank regulation both in Scotland and the rest of the United Kingdom if Scotland became independent?”

Sir Mervyn King: “The Bank of England today is the central bank of the United Kingdom—both Scotland and the rest of the United Kingdom.”

Prof David Blanchflower (ex-MPC member), Radio Scotland, 22 April 2013:
“Scottish notes are backed by British notes, so I don’t think it’s a really big problem, it’s not seen as a major precedent and a lot of this stuff, I do think, is a great deal of scaremongering, there’s not a great deal of economics going into this.”

James Scott, formerly Executive Director of Scottish Financial Enterprise, 23 April 2013, said:
“This bogus assertion [that an independent Scotland in currency union with the remainder of the UK would be unable to continue to issue its own banknotes] by the Treasury should be treated with the contempt it deserves.

“No one seriously believes that while we have had our own Scottish banknotes for so many years under the current Westminster arrangements, we would not be able to continue to do so as an independent country.”

SCOPE FOR ECONOMIC FLEXIBILITY

Professor David (Danny) Blanchflower (ex-MPC member), BBC Radio Scotland, 22 April 2013:
“It’s quite conceivable that there can be monetary union with some differences in fiscal policy … there are clearly details yet to be worked out, but a lot of this sounds like political posturing rather than economics”

And quote reported on DFM blog 22nd April 2013:
“Independence within a currency union would represent a substantial increase in the economic responsibilities of the Scottish Parliament. A currency union would provide the full flexibility to vary tax and spending decisions to target key opportunities and challenges in Scotland – powers that are currently unavailable to the Scottish Parliament.

“George Osborne would be better off revisiting his misguided and failing policies for growth rather than scaremongering to the people of Scotland.”

Paul Johnston, Director of the Institute of Fiscal Studies, Scotsman, 3 May 2013: [speaking at the ESRC Conference, 2 May 2013] Scotland in a sterling zone could decide, if it wished, to have higher taxes and spending so long as its overall deficit did not increase.