23 August 2016

I am writing to give a brief update on the work the Scottish government has been doing in the wake of the EU referendum and to outline how we see that work progressing in the weeks and months ahead.

A few weeks ago, I set out the five key national interests that I consider to be at risk as a result of the UK wide referendum result - our democratic interest, our economic interest, our interest in social protection, our interest in the solidarity of independent countries working together to address global challenges and our interest in continuing to influence EU decisions.

Today, we have published the first in a series of impact assessments setting out the potential impact that leaving the EU could have on Scotland’s economy. The report published today draws on projections by a number of external organisations. It estimates that by 2030, the cost to the Scottish economy of leaving the EU could range from £1.7 billion to £11.2 billion per year. The estimated cost to our public finances ranges from £1.7 billion to £3.7 billion a year. I attach a copy for your reference.

This assessment underlines the importance of doing everything we can to protect our place in Europe and, especially, our membership of the single market.

I said on the morning after the referendum that we would explore all options - including independence - to achieve this and that remains the case.

In the first instance, that means playing a full and active part in the development of the UK position in advance of Article 50 being triggered. It is through this process, first of all, that we must make sure that Scotland’s interests are recognized and protected.
We have a welcome commitment from the Prime Minister that the Scottish government will be fully involved in that process; and that Article 50 will not be triggered until there is ‘a UK approach and objectives for negotiations’.

The key priority for the Scottish government has been to ensure that it is a meaningful process that involves and protects Scotland’s interests, including those outcomes that might differ from the position in the rest of the UK.

These discussions are making progress. We expect them to conclude soon and ministers to meet in the near future to finalise arrangements.

The Scottish government will then work through these arrangements to seek ways to protect Scotland’s interests.

Our approach will be as follows;

We will, firstly and obviously, use whatever influence we have in this process to seek the least worst outcome for the whole of the UK – that, in my opinion at this stage, should involve a very close ongoing relationship with the EU, including continued membership of the single market.

However, given the strong signals that the UK is heading for a hard Brexit - a future outside the single market as well as outside the EU – we should not underestimate the prospects of the UK approach being at the most damaging end of the spectrum.

As we show today, the option of hard Brexit in which the UK will fall back on WTO rules – the option that the UK government appears to favour - would see Scotland’s economy take a hit of up to £11.2 billion per year.

This scenario would cost our public finances up to £3.7 billion a year - a figure equivalent to a 13% reduction in the Scottish government budget.

Of course, as I have said before, if it turns out not to be possible to protect Scotland’s interests through the UK, it must be open to the Scottish people to consider afresh - and in this very different context - the question of independence.

However, I am clear that we will enter these UK discussions in good faith.

Over the next few days, I will confirm details of two steps to equip the Scottish government for the task ahead.

Firstly, I intend to appoint - subject to Parliament’s approval on our return from summer recess - a new minister, reporting directly to me, who will lead for the Scottish government in our engagement with the UK government in the pre Article 50 period and beyond. It will also be the job of the new minister to ensure that the voice of Scottish stakeholders is heard loudly and directly by the UK government as it develops its position.

Fiona Hyslop and Alasdair Allan will continue to be responsible for our engagement with EU institutions and member states and Derek McKay will remain responsible for overall policy on the constitution.
I will also convene a new Cabinet Sub Committee - bringing relevant ministers together - to oversee and direct all of our work on Brexit related matters.

I hope this brief update is helpful. As you know, I am committed to keeping Parliament - and your Committee - fully updated and involved as discussions progress. I look forward to appearing before the Committee soon.

NICOLA STURGEON