European and External Relations Committee

The EU referendum and its implications for Scotland

Written submission from Morag Keith

Introduction

On June 23rd, the UK electorate voted to leave the EU in a national referendum. The decision marks a major constitutional change. The European & External Relations Committee of the Scottish Parliament has issued a call for evidence on the implications of Scotland leaving the EU. That call for evidence is, rightly, wide-ranging and comprehensive, seeking input from the widest range of contributors.

This response is being made on an individual capacity, representing my personal opinion, informed by more than twenty years of experience of working at EU level in the field of European Funding. As such, my contribution will be mainly confined to the Committee’s questions with regard to the impact on Scotland’s economy of termination of ESIF support and access to other EU Funding Programmes and the implications for Scotland’s funding settlement of withdrawal from the EU.

My expertise of EU Funding also provides awareness of mechanisms within current and future funding programmes that could and should be harnessed to support the tasks that must be undertaken during this transition phase, therefore, this response will also seek to contribute to the Committee’s questions with regard to the withdrawal process, in terms of presenting possible funding solutions.

Impact on Scotland’s economy of termination of ESIF support and access to other EU Funding Programmes.

Between 1975 and 2007, the value of European Structural Funds to Scotland was £6.3bn. The current 2014-2020 Programme has a further value of £550m.

At the end of the 1999 Programme period, the scale of EU Structural Funds in Scotland was 20% of the UK total.

ERDF funding supported major infrastructure developments: from the Edinburgh bypass; railway extensions in Airdrie, Cumbernauld and Paisley; the upgrading of roads and causeways in the Highlands and Islands to investments in Tourism infrastructure as well as providing significant investment towards the capital refurbishment of the College sector.

In terms of ESF funding, almost 30% of the total ESF funding to Scotland has contributed towards the provision of new and additional vocational training programmes in the college sector.

The intention of European Regional Aid is to re-allocate funds towards the most deprived regions of Europe; to act to redistribute wealth from the richest areas to the most deprived areas.

It should be noted by the Committee, however, that ERDF funding in the UK has never operated in the manner that was intended by the European Commission. Rather, the Conservative Government, under Margaret Thatcher, introduced a system of ‘displacement’ so that where ERDF funding was assigned to a Region, that Region’s core capital funding allocation was reduced.2

Essentially, rather than allowing EU funds to top up existing core funding allocations in the most deprived areas, to act as a catalyst to boost economic development, the UK Government reduced their core funding by (coincidentally) about the same amount that would be received from ERDF, thus effectively negating the added value of the funds.

In his thesis: “EU Regional Policy: has the UK government succeeded in playing the gatekeeper role over the domestic impact of the European Regional Development Fund?” Ian Bache3 states:

The government’s treatment of the funds was justified by the view that ERDF was public money, a rebate on the UK's contribution to the Community budget: “Mrs Thatcher said it was our money: let's get our money back!: The theory was that it was public expenditure paid through Brussels” (DOE official, 1995)

The starting point for the Committee, in terms of ESIF Funds, should therefore be that this displaced funding must be replaced, in order to restore equity. To not respect this position would mean that the most deprived areas of the UK were subsidising the most affluent areas.

This would be most expediently applied if the UK were to (1) commit to serving out the current programme period of 2014-20 and (2) post-2020, assigning the same amount of funding to the Scottish Government as an additional element to the funding settlement.

It is important to note that, in addition to ESIF Funds (incorporating the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Funds) which are assigned directly to Scotland, there are a number of additional EU Funding Programmes that Scotland is entitled to access. These include: Five of the EU INTERREG programmes (Cross Border Programme; NW Europe Programme, Atlantic Programme, Northern Periphery Programme and North Sea Programme); the Erasmusplus Programme and Horizon 2020.

The UK could continue to participate in all of these programmes as a 3rd Country – paying to participate by ring-fencing funding aligned to the Programmes. Each of the

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2 https://core.ac.uk/download/pdf/9554340.pdf
3 Now Professor Ian Bache of Sheffield University, Professor of Politics. https://www.sheffield.ac.uk/politics/people/academic/ian-bache
constituent parts of the UK should be entitled to take a view on whether they would wish to participate in these programmes as a 3rd party, or whether to have their share of the funds returned to their core budgets.

Perhaps the most important of these funds would be the INTERREG Cross Border Programme, which covers Ireland, Northern Ireland and parts of the West of Scotland and Highlands and Islands Area. Given the importance of Ireland as a European partner and economic neighbour, Scotland’s position should be that funding for the Cross Border Programme will be protected and ring-fenced to continue joint co-operation between the three jurisdictions, whether within the EU INTERREG initiative or by means of a new, separate programme at National/Regional level (which could allow participation from a wider geographical area within Scotland).

Mitigation

I have set out, above, that the starting point for Scotland, with regard to ESIF funds, should be that the current ESIF programmes should be allowed to be delivered in full. Not only because these funds belong to Scotland, relate to devolved responsibilities, and should be applied in accordance with our wishes, but also because we should reinforce, to the EU, that we will respect the obligations that we entered into as a Member State.

The European Commission recognises that there are events which may fundamentally change the economic position that was in place when the ESIF programmes were developed. This was the case at the time of the financial crisis of 2007, when it was agreed that Member States could alter their programme priorities to mitigate the impact of the downturn.

The referendum result of 23rd June should be recognised as a fundamental change to the current and future economic position of Scotland. We are entitled to request a change to the current priorities and to propose new priorities for investment. This will require technical negotiations with the EC, but the EC is likely to be sympathetic, particularly if Northern Ireland and Ireland also supports such an amendment to their own programmes.

This would allow Scotland to underpin and support the work of the Minister for UK Negotiations on Scotland’s Place in Europe; the Scottish Government’s Standing Council on Europe and the work of this Committee to investigate the implications for Scotland of leaving the EU through:

- Allowing us to undertake baseline assessments of where we are and conduct a gap analysis – what do we need to do to make sure we are competent and complete to meet whatever the future holds?

- Allowing us to identify, engage and pay for a range of experienced EU experts to provide specific knowledge for specific challenges.

- Supporting the development of a capacity building programme that includes civil servants and individuals from across the widest range of Government
Agencies and Civic Society – funding will pay for salaries, training, all costs related to expanding capacity/skills.

- Allowing us to undertake a programme of exchanges, placements and internships between Scottish Government Staff and those of other Member States and, if possible, EU institutions (this might be limited until Article 50 is triggered)

Conclusion

The initial popular, political and academic reaction to the result of the UK referendum on EU membership was, understandably from a Scottish perspective, disappointment and concern for the potential negative implications for the country, its people and its economy. However, as with all economic and political shocks this creates an opportunity for fresh thinking to inform the approach Scotland should adopt to positioning itself and responding to the evolving situation. In this response, I urge a bold approach that is founded on the Scottish Government making intelligent use of existing European Funds firstly, to enlist all of the collective knowledge and experience that exists in the country and the Scottish diaspora to optimise the competence and contacts it has at its disposal; secondly, to undertake a detailed and informed audit of the true value of European Funding to the nation since 1975; thirdly, to develop and nurture effective and mutually beneficial relationships with other regions and nations with whom common cause may be identified and with whom novel proposals may be generated for the future; and through these, to generate a range of positions that will allow the Scottish Government to respond agilely as the “Brexit” negotiations unfold.

This consultation is the beginning of the process. The eventual solution for Scotland will take time and effort; research and analysis. We must ensure that sufficient resources are made available to complete this task.