



Tithe an
Oireachtais
Houses of the
Oireachtas

An Comhchoiste um Poist, Fiontar agus Nuálaíocht

An Tionchar Eacnamaíochta is Dócha a bheidh ag Brexit agus Béim ar leith ar
Phoist agus Fiontair

Márta 2017

Joint Committee on Jobs, Enterprise and Innovation

The Likely Economic Impact of Brexit with Particular Emphasis on Jobs and
Enterprise

March 2017



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Chair's Foreword



Mary Butler TD
Committee Chair
(FF)

The United Kingdom's decision to leave the European Union is the major issue facing Ireland at this time. At a meeting of the Joint Committee on Jobs, Enterprise and Innovation on the 27th of September 2016, the Joint Committee agreed that it would examine "The Likely Economic Impact of Brexit with Particular Emphasis on Jobs and Enterprise" as a matter of urgency.

The Brexit process is at a very early stage and there is still little indication of what the outcome will be. However, it is clear that the impact on the Irish economy will be substantial. The Irish economy is heavily linked with UK economy, Ireland's closest and oldest trading partner. The shared cultural links further integrate the economies. The UK is a substantial market

for Irish exporters, though the dependence on the UK market has been reducing. It is vital that Ireland remains competitive in this changing environment, especially as we compete with the UK for jobs and investment.

The economic, social and political links between Ireland and Northern Ireland add a further dimension to Brexit for the island of Ireland. Maintaining the Peace Process and the Good Friday Agreement must remain a priority for all involved in the negotiations. The economies on both sides of the border are increasingly integrated and will be deeply affected by any change in the trading relationship between Ireland and the UK.

The UK leaving the EU could have a unique impact on business and trade in Ireland. This report attempts to gain a better understanding of the consequences, with a particular emphasis on what the future relationship between the EU and the UK will be, and how it will impact on the Irish economy. The uncertainty created by the decision of the UK to leave the European Union has already begun to have a negative impact on the Irish economy. As the negotiations progress, there will be more clarity as to the terms of the UK exit, which will allow for more precise planning to mitigate the negative effects and capitalise on any opportunities which may emerge.

The Committee notes that the impact of Brexit will touch all sections of Irish society and welcomes the substantial work already undertaken and underway by other Committees of the Houses of the Oireachtas.

In the course of the preparation of this report, the Committee met with a wide range of stakeholders to elicit their views over five days of meetings. All opening statements and the transcripts of the public meetings of the Joint Committee at which the various organisations and individuals gave evidence can be accessed on the Committee's website via the links provided in the executive summary of this report.

On behalf of the Joint Committee, I would like to express my gratitude to the staff of the Committee Secretariat and the Library and Research Service for the work involved in producing this report, to Committee Members for their input and to the organisations and individuals who came before the Joint Committee to give evidence. The Joint Committee gained valuable insights from all those who had an input into the preparation of the report.

There are 13 recommendations set out in the report. The Joint Committee is fully committed to monitoring the impact of the Brexit negotiations on the Irish economy and Irish jobs. The Committee intends to revisit the issue regularly for updates from the Minister for Jobs, Enterprise and Innovation and other agencies on the progress of their responses to Brexit.



Mary Butler T.D.

Chair

Joint Committee on Jobs, Enterprise and Innovation

28th February 2017

Executive Summary

Stakeholders

The Joint Committee (hereinafter referred to as the “Committee”) held five days of hearings between October and December of 2016 with relevant stakeholders to discuss “The Likely Economic Impact of Brexit with Particular Emphasis on Jobs and Enterprise”. The table below identifies all stakeholders who made presentations to the Committee, the date of their presentations and the session during which they made their presentation.

Figure 1: Joint Committee hearings – stakeholders present

	Session 1	Session 2
18 October 2016	<ul style="list-style-type: none"> • Mr Kevin Sherry and Mr. Garrett Murray, Enterprise Ireland • Ms Mary Buckley and Mr. Dennis Curran, IDA Ireland • Mr Aidan Gough, InterTradeIreland 	
25 October 2016	<ul style="list-style-type: none"> • Dr Ruth Taillon and Dr Anthony Soares, Centre for Cross Border Studies • Mr Dan O’Brien and Mr John McGrane, Institute of International and European Affairs • Dr Martina Lawless and Dr Edgar Morgenroth, Economic and Social Research Institute 	<ul style="list-style-type: none"> • Ms Patricia King, Irish Congress of Trade Unions • Dr Tom Healy, Nevin Economic and Research Institute • Ms Bríd O’Brien, Irish National Organisation for the Unemployed
8 November 2016	<ul style="list-style-type: none"> • Mr Arnold Dillon and Mr. Gerard Brady, IBEC • Mr John McGrane and Ms. Katie Daughen, British-Irish Chamber of Commerce • Mr Ian Talbot and Mr. Paddy Malone, Chambers Ireland 	<ul style="list-style-type: none"> • Ms Patricia Callan and Ms Linda Barry, Small Firms Association • Mr Neil McDonnell and Mr James Coughlan, Irish Small and Medium Enterprises • Mr Simon McKeeever, Irish Exporters Association

6 December 2016	<ul style="list-style-type: none"> Mr Máirtín Ó Muilleoir MLA, Minister for Finance of Northern Ireland Mr Chris Hazzard MLA, Minister for Infrastructure of Northern Ireland 	
15 December 2016	<ul style="list-style-type: none"> Ms Mary Mitchell O'Connor T.D., Minister for Jobs, Enterprise and Innovation 	

Further desk research was undertaken into relevant policy and literature papers.

Transcripts

The transcripts of the meetings of [18 October](#),¹ [25 October](#),² [8 November](#),³ [6 December](#)⁴ and [15 December](#)⁵ 2016 are available online.

Submissions and Presentations

The submissions and presentations made to the Committee for the meetings of 18 October, 25 October, 8 November and 15 December are available [online](#).⁶

¹ Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

² Oireachtas Joint Committee on Jobs, Enterprise and Innovation (25 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161025~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

³ Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁴ Oireachtas Joint Committee on Jobs, Enterprise and Innovation (6 December 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161206~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161206~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁵ Oireachtas Joint Committee on Jobs, Enterprise and Innovation (15 December 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161215~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161215~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁶ Submissions and presentations.

<http://www.oireachtas.ie/parliament/oireachtasbusiness/committees_list/jobenterpriseandinnovation/pres entationsandsubmissions/>

Summary of Recommendations

Summary of Recommendations

1. The Committee recommends that Ireland be a strong voice arguing for a transitional agreement being put in place until the UK's relationship with the EU can be agreed. It is important that this agreement be as close to the status quo as possible.
2. The Committee recommends that as part of the Brexit negotiations, it is essential to argue the case for designated special status for Northern Ireland within the European Union, which includes:
 - Protection of the peace process and protection and full implementation of the Good Friday Agreement and subsequent agreements;
 - Access to the EU Single Market;
 - Maintain access to all EU Funding streams;
 - Remain part of the Common Travel Area;
 - Maintain access to EU institutions including the European Court of Justice, the European Court of Human Rights and EU sectoral agreements;
 - Protect access to EU rights pertaining to employment, social security and healthcare;
 - Protect the right of Northern Irish citizens as Irish and, therefore, EU citizens, and all rights pertaining thereto.
3. The Committee recommends that Ireland approaches the negotiations with the emphasis on keeping the discussions constructive and avoid unnecessary disputes between the UK and other Member States.
4. The Committee recommends that the enterprise agencies (Enterprise Ireland, IDA Ireland and InterTradeIreland) receive extra funding where necessary to allow them offer the best services possible to businesses in an attempt to mitigate the effects of Brexit.
5. The Committee recommends that the Government seeks changes in EU fiscal rules to allow for more capital investment.
6. The Committee recommends the Government seek exemptions to EU state aid rules due to Brexit. This will be aimed at relieving the distress on working people of any economic upheaval and to help in the provision of services.
7. The Committee recommends that EU standards and protections in environmental and employment law are maintained.
8. The Committee recommends that a nationwide campaign be launched to increase awareness surrounding the risks of Brexit to SMEs, both directly and indirectly involved in exporting to the UK and those in vulnerable sectors. The campaign should also direct businesses to the aid that is in place to help them prepare for the consequences of Brexit.

- 9.** The Committee recommends that Governments in both jurisdictions across the island of Ireland bring together unions and employers to develop an "early warning system" that would identify at risk sectors and enterprises and establish appropriate retraining resources and systems.
- 10.** The Committee recommends that the Department of Jobs, Enterprise and Innovation and its agencies develop measures to track the number of Irish businesses locating at least part of their operations to the UK, to determine what measures can be taken to reduce this.
- 11.** The Committee recommends that investment in education be increased to ensure a skilled and innovative workforce.
- 12.** The Committee recommends that investment in infrastructure, especially transport and broadband, across the regions should be increased to mitigate the consequences of Brexit, especially for rural communities.
- 13.** The Committee recommends that investment in housing and office space, where required, be increased and facilitated to meet the needs of working people and to allow Ireland to exploit any opportunities arising from firms wishing to locate from abroad.

Introduction

The Committee held five days of hearings between October and December 2016, hearing from a wide-range of stakeholders to examine the likely economic impact of Brexit with particular emphasis on jobs and enterprise and the steps being taken to mitigate these risks.

These stakeholders highlighted the large number of concerns many sections of society have following the Brexit vote. There was unanimity among the stakeholders that Brexit would have negative consequences on the Irish economy, with the severity of the consequences primarily dependent on the future relationship between the EU and the UK.

However, it was also accepted by the stakeholders that there is significant uncertainty and this uncertainty makes it difficult for the Government to pre-empt what will occur. The Committee heard that it will be difficult to mitigate the negative impacts of Brexit⁷.

The first notable impact of Brexit has been the fluctuations in the value of Sterling. This has particularly affected both businesses reliant on the UK market for exports and businesses operating in the so-called Border Area which have seen a loss in their competitiveness with businesses in Northern Ireland. It should be noted that the currency fluctuations could be seen as cyclical and not structural and could have been caused by other shocks and, therefore, may not be solely attributable to Brexit.

However, the Border Area is also of particular concern as the economies of the Republic of Ireland and Northern Ireland are increasingly integrated. While this issue will be reported on separately by the Joint Committee on the Implementation of the Good Friday Agreement, the introduction of any type of border will impact on all-island supply chains. The effect of a border on the Peace Process and communities within the region should also be considered.

In Chapter 1, the context for the economic relationship between the EU and the UK, and the specifics of the UK-Ireland relationship are summarised. Some of the issues that have arisen since the UK Referendum on exiting the EU are also highlighted.

Chapter 2 examines three possible configurations for the future trading relationship between the UK and the EU. The first option examined is European Economic Area (EEA) membership which represents the closest relationship to the status quo.

The second option is a comprehensive free-trade agreement. The result of a free-trade agreement will depend on the terms of the final agreement, which could range from relatively close to the current relationship or only include a limited number of sectors.

⁷ Dan O'Brien, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (25 October 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161025~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

The final option examined is the worst case scenario, with no agreement found in the two year negotiating period, no agreement to extend the negotiations and EU-UK trading arrangements determined by World Trade Organisation (WTO) rules. This would result in the imposition of tariffs. Following Prime Minister Theresa May's speech on the 17th January 2017, the first option appears impossible and the third option appears increasingly likely.

Chapter 3 examines the Irish response to Brexit and identifies some opportunities that may arise. It also details the Committee's recommendations following its hearings on Brexit.

Chapter 1 - Context of Brexit

The UK voted 51.9% to 48.1% to leave the EU through referendum on the 23rd of June 2016⁸. Although the Referendum is not legally binding in the UK, the UK Government led by Theresa May has vowed to take the UK out of the EU. The UK must invoke Article 50 of the Lisbon Treaty to commence the negotiation process for its exit from the EU. The UK Supreme Court ruled on the 24th of January that the UK Government must seek the approval of parliament⁹ before invoking Article 50¹⁰.

However, it should be noted that 56% of the people in Northern Ireland voted to remain in the EU. It is important to uphold the democratic vote of citizens on this island to remain, and to act in the national interests of the whole island. Those who voted to remain did so because they believed it is in their best interests politically and economically.

The process for leaving the European Union under Article 50 of the Lisbon Treaty is complex and untested. There is a two year deadline for the completion of exit negotiations which can only be extended by a unanimous decision of all Member States. The UK Government has committed to triggering Article 50 by the end of March. It would appear very difficult, if not impossible, for these complex negotiations which will determine the future relationship (including trading relationship) between the EU and the UK to be completed in two years, given the length of previous EU trade negotiations.

The European Commission and the heads of government of EU27¹¹ have nominated Mr Michel Barnier to be the EU's chief negotiator, with the Commission taking the lead in the negotiations¹².

The UK's decision to leave the European Union will result in a change in the relationship between Ireland and the UK, with the possibility of profound negative effects depending on the nature of this future relationship which remains largely unclear, as negotiations have yet to begin. This issue is examined in Chapter 2.

UK relationship with EU

Through its membership of the EU the UK is highly integrated with the EU (and by extension with all of the Member States). However, it is often commented that the UK's vision of the EU has always

⁸ The Electoral Commission, *EU referendum results* (2016). <<http://www.electoralcommission.org.uk/find-information-by-subject/elections-and-referendums/past-elections-and-referendums/eu-referendum/electorate-and-count-information>> accessed 25 January 2017

⁹ Jane Croft, Mure Dickie and George Parker, 'UK Supreme Court rules MPs must vote on triggering Brexit' *Financial Times* (25 January 2017) <<https://www.ft.com/content/af707ac0-e216-11e6-8405-9e5580d6e5fb>> accessed 25 January 2017

¹⁰ Article 50, Consolidated Version of the Treaty on European Union [2016]OJ C 202.

¹¹ The EU Member States excluding the UK

¹² Margaritis Schinas, 'Barnier's appointment is fully in line with law' *Financial Times* (20 December 2016) <<https://www.ft.com/content/689242e8-c61c-11e6-8f29-9445cac8966f>> accessed 25 January 2017

been different to that of the other Member States¹³, with an emphasis on the economic and trade relationship rather than wider political integration. The UK has previously opted out of the Euro (they are the only country to have a permanent opt-out) and the Schengen area (passport free travel among member countries). Since the 1980s, the UK has also received a rebate on its contribution to the EU budget and, by way of example, in 2014 this reduced the UK's overall contribution by 35%¹⁴. This arose as the UK's agricultural sector is small (relative to other EU Member States) but the majority of EU funding is in this sector. There are also other correction mechanisms for countries whose budgetary burden is also considered excessive.

Trade

The UK has an extensive trade relationship with the other EU Member States. The EU is the destination of 44% of UK exports¹⁵. Table 1 shows the importance of trade between the UK and individual Member States. The first column shows the importance of the UK as a share of each EU Member State's total global exports. The second column shows each EU Member State as a share of the UK's total global exports.

The UK represents a larger share of exports for every Member State (with the exception of Germany) than their share of UK exports. However, the EU as a whole represents a larger portion of UK exports (44%) than the UK does of EU exports (7%).

As Table 1 shows, the UK is a particularly important market for Irish (13.66%) and Cypriot (10.07%) exports, while Germany, France, Netherlands and Ireland are the most important markets for the UK exports.

¹³ For example, Crispin Tickell, 'How Britain negotiated its entry to the EEC – the failed to play its part' *The Guardian* (25 June 2016) <<https://www.theguardian.com/politics/2016/jun/25/how-britain-negotiated-its-entry-to-the-eec-then-failed-to-play-its-part>> accessed 26 January 2017

¹⁴ European Parliament Briefing, *The UK "rebate" on the EU budget* (2016) <[http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/577973/EPRS_BRI\(2016\)577973_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/577973/EPRS_BRI(2016)577973_EN.pdf)> accessed 23 January 2016

¹⁵ Martina Lawless and Edgar L. W. Morgenroth, 'The Product and Sector Level Impact of a Hard Brexit across the EU' (2016) ESRI Working Paper No. 550 <<https://www.esri.ie/pubs/WP550.pdf>> accessed 1 December 2016

Table 1: EU-UK goods exports as a share of total goods exports¹⁶

	UK as share of total exports	EU member as share of UK total
Austria	3.06%	0.53%
Belgium	8.92%	3.77%
Bulgaria	2.55%	0.11%
Cyprus	10.07%	0.12%
Czech Rep.	5.25%	0.65%
Germany	7.43%	10.16%
Denmark	6.36%	0.75%
Spain	7.45%	2.85%
Estonia	2.58%	0.07%
Finland	4.94%	0.45%
France	6.27%	5.89%
Greece	4.25%	0.29%
Croatia	1.72%	0.05%
Hungary	3.88%	0.42%
Ireland	13.66%	5.55%
Italy	5.53%	2.81%
Lithuania	4.46%	0.09%
Luxembourg	3.88%	0.07%
Latvia	5.12%	0.07%
Malta	6.45%	0.12%
Netherlands	8.98%	5.73%
Poland	6.81%	1.20%
Portugal	6.72%	0.41%
Romania	4.36%	0.32%
Slovakia	5.54%	0.15%
Slovenia	2.23%	0.07%
Sweden	7.19%	1.44%
Total	6.99%	44.16%

Ireland and the UK

The UK and Ireland have deep cultural and trade links and share a land border (one of only two EU-UK land borders). The all-island economy is also deeply integrated across both jurisdictions.

The UK is one of Ireland's most important trade partners (both in terms of exports and imports), leaving Ireland heavily exposed to any change in the trading relationship between the EU and the UK. An ESRI working paper (see table 1) shows that 13.66% of total Irish exports go to the UK, while 5.55% of UK exports go to Ireland, this represents a significant market especially considering the

¹⁶ Martina Lawless and Edgar L. W. Morgenroth, 'The Product and Sector Level Impact of a Hard Brexit across the EU' (2016) ESRI Working Paper No. 550 <<https://www.esri.ie/pubs/WP550.pdf>> accessed 1 December 2016, p7

difference in size of the two economies. Similarly, according to the Central Statistics Office (CSO), the UK accounted for 13.9% of Irish goods exports and 25.7% of goods imports in 2015¹⁷.

Ireland's reliance on the UK market is, however, decreasing as Irish-based companies' exports to other countries increase. Enterprise Ireland highlighted to the Committee that their client companies' share of exports to the UK had fallen from 45% in 2005 to 37% in 2015¹⁸. Although exports of client companies to the UK have continued to rise over this period, this rate of growth has been at a slower pace than exports to other countries.

However, Mr John McGrane of the British-Irish Chamber of Commerce emphasised that indigenous exporting firms, often smaller family run businesses, are much more reliant on the UK, with around 40% of exports going to the UK market compared to only 16% of the exports of foreign direct investment (FDI) firms¹⁹. Mr Ian Talbot of Chambers Ireland also highlighted that small and medium-sized enterprises (SME) are particularly reliant on the UK market for their exports²⁰. Indigenous firms are therefore more exposed to any change in the trading relationship. Non-exporting businesses are also exposed to the trade relationship between the UK and Ireland, as they may be further along the supply chain of a business that exports to the UK²¹.

The importance of the UK for goods exports also varies by sector. Figures from the CSO²² highlight that some sectors are considerably more exposed to the UK market than others. For example, food and live animals account for just under 9% of Irish goods exports, but 45.5% of these exports are destined for the UK and account for 29% of total Irish goods exports to the UK.

In contrast, while Chemicals and related products account for 57% of total Irish goods exports, only 6.4% of chemicals and related products go to the UK. However, this accounts for 26% of total Irish goods exports to the UK. Therefore, while this sector is not highly exposed to the UK market, it still accounts for a significant portion of Irish goods exports to the UK.

Agriculture is also particularly vulnerable to any change in the border arrangements between the two jurisdictions. Over the last number of decades, many firms have created and availed of all-island

¹⁷ Central Statistics Office, *Brexit: Ireland and the UK in numbers* (2016)

<<http://www.cso.ie/en/media/csoie/releasespublications/documents/statisticalpublications/Brexit.pdf>>
accessed on 26 January 2017

¹⁸ Kevin Sherry, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

¹⁹ John McGrane, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (25 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161025~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

²⁰ Ian Talbot, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

²¹ Patricia Callan, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

²² Central Statistics Office, *Brexit: Ireland and the UK in numbers* (2016)

<<http://www.cso.ie/en/media/csoie/releasespublications/documents/statisticalpublications/Brexit.pdf>>
accessed on 26 January 2017

supply chains. Mr Aidan Gough of InterTradeIreland, highlighted the integrated nature of the economies of both jurisdictions, with a particular emphasis on the agri-food sector. By way of example, Mr Gough told the Committee that around 40% of pigs from Ireland are sent to Northern Ireland for slaughter, while a similar proportion of milk produced in Northern Ireland is processed in processing plants in Ireland²³. The particular issues facing the agricultural sector are examined in the Joint Committee on Agriculture, Food and the Marine's report *Impact of the UK Referendum on Membership of the European Union on the Irish Agri-Food & Fisheries Sectors*.

Any imposition of administrative obstacles, such as the imposition of customs checks, to crossing the border would create a burden on these sectors, possibly reducing the viability of some businesses in these sectors. Existing supply chains could be disrupted by the increased costs, e.g. tariffs, typically associated with border controls and non-tariff barriers due to differing regulations. The end of free movement across the border will also cause problems for businesses along the Border Area that rely on staff and customers who travel between the two jurisdictions. Around 30,000 people commute across the border every day, therefore, any restriction in travel across the border, such as identity checks, would have negative consequences for the commuters as well as their employers²⁴.

Businesses in the Republic of Ireland also use transit through both Northern Ireland (especially in the case of Donegal) and Great Britain to bring their goods to other EU markets. Mr Neil McDonnell of ISME stated that the imposition of customs checks and other obstacles to the use of the UK as a 'land-bridge' would have a serious impact on Irish businesses²⁵.

Chris Hazzard, Minister for Infrastructure of Northern Ireland, expressed significant concern regarding the loss of access to EU funding²⁶. The consequence of losing such funding has a financial and operational cross-border implication for both Ireland and Northern Ireland. For several years there has been a good level of co-operation throughout Ireland between administrations in support of the acquisition of funding for such projects as the York street interchange and the Newry Southern Relief Project. Ireland should go forward into negotiations on a united front to retain presence of both jurisdictions in EU transport/infrastructure plans through the TEN-T programme and access to its CEF funding mechanism.

²³ Aidan Gough, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

²⁴ Paddy Malone, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

²⁵ Neil McDonnell, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

²⁶ Chris Hazzard, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (6 December 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161206~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161206~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

Máirtín Ó Muilleoir, Minister for Finance of Northern Ireland, said that Brexit contravenes the spirit of the Good Friday Agreement and is a denial of the hope that is inherent in the GFA²⁷. That he had yet to see an economic report that highlighted any benefit of Brexit to Ireland or Northern Ireland. Minister Ó Muilleoir went on to say that any negative impact that Brexit will have on England, Scotland and Wales will be magnified in Northern Ireland - and that the impacts will be much worse and last longer. It is therefore vital that Ireland and Northern Ireland agree on a strategy to mitigate and prevent any cross-border impacts.

Risks Already Materialised

As the UK withdrawal from the EU has yet to officially commence, it is still too early to analyse the effects that Brexit will have on the Irish economy. However, since the Referendum some effects have been visible. The most notable is the effect of the fall in the value of the Pound Sterling.

Currency Risk

Currency volatility between the Euro and the Pound Sterling has always been (long before the possibility of a UK exit from the EU) an area of concern for Irish businesses and the Irish economy, especially for the sectors and businesses reliant on the UK for exports. However, the change in the exchange rate since the Referendum has been the first evidence of the potential impact of Brexit on the Irish economy.

Many of the stakeholders, notably those representing business groups, impressed upon the Committee that the highest short-term risk following the UK Referendum was the change in the exchange rate. The Committee heard that many businesses, especially SMEs, do not and did not have any currency hedging in place, leaving them fully exposed to fluctuations in the Pound Sterling²⁸. According to IEA, this is partly due to small businesses not having access to the expertise necessary to put in place hedging contracts²⁹.

Those firms which did have currency hedging in place following the UK Referendum, in general larger businesses, were only covered for the first six to nine months following the Referendum (as is usually the case for currency hedging). The Committee heard from IBEC³⁰ and the IEA³¹ that they are expecting the first quarter of this year to bring about more issues for exporting firms as previous

²⁷ Martín Ó Muilleoir, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (6 December 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161206~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161206~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

²⁸ Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

²⁹ Simon McKeever Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

³⁰ Gerard Brady Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

³¹ Simon McKeever Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

cover starts to expire and new contract negotiations will need to make provisions for the currency fluctuations. This could lead to some exports the UK no longer being viable for the firms involved.

The mushroom sector has been, so far, the most affected by the fall in Sterling since the Referendum. This is mainly due to its reliance on the UK market, the denomination of contracts in Sterling and the low profit margins at which many firms in the sector operate. This issue is examined in detail in the Joint Committee on Agriculture, Food and the Marine's report, *Impact of the UK Referendum on Membership of the European Union on the Irish Agri-Food & Fisheries Sectors*.

Uncertainty

Another issue since the Referendum has been the level of uncertainty regarding the future relationship between the EU and the UK. The Committee heard from various stakeholders that the level of uncertainty was leading businesses to postpone investment decisions until there is more clarity. While Theresa May's speech on the 17th of January has given some clarity on the Brexit negotiations, the future trading relationship between the EU and the UK remains uncertain.

Foreign Direct Investment

Since the Referendum, there has been much speculation that Ireland may benefit from multinational firms established in the UK looking to establish bases in the EU, especially in the financial services sector. There has been little concrete movement in this area and the extent of these opportunities will partly depend on the future trading relationship between the EU and the UK (see chapter 2), especially the extent of passporting arrangements for financial institutions based in London. Passporting allows financial institutions based in one Member State to operate throughout the EU and if this was to be restricted, financial institutions based in the UK are likely to consider relocating part of their activities to preserve access to the Single Market. Mr Denis Curran of the IDA informed the Committee that it interacts regularly with financial institutions based in London, but that it remains too early for these institutions to make concrete decisions. What Ireland can/should do to position itself to maximise potential advantages is examined in chapter 3.

Chapter 2 - Possible Future Relationships between the EU and the UK and Possible Risks to Ireland

The future relationship between the EU and the UK will define the effect of Brexit on Ireland. The Committee heard from various stakeholders that there were three broad types of trading relationship that could exist between the EU and the UK, an EEA/EFTA model (the Norway model), a CETA-like Free Trade Agreement and reliance on WTO rules.

It was widely agreed by the stakeholders before the Committee that the EFTA/EEA model is the most desirable from an Irish point of view as it remains close to the current arrangement. Dr Martina Lawless stated before the Committee that it should be a “strong priority” to keep the relationship as close as possible to the current arrangement³².

As renegotiating the future relationship between the EU and UK is complex and may be difficult to achieve in the two year time frame under Article 50, a transitional agreement is likely to be necessary. However, it is far from clear that, firstly, such an agreement could be reached as it will require a unanimous decision of Member States and, secondly, that any such agreement will not have serious consequences for Ireland.

In the event of no agreement being reached nor an extension to the negotiation period agreed, defaulting to WTO rules could have a significant impact on the Irish economy. This is examined further in this chapter and represents a worst case scenario for trade between the EU (and by extension Ireland) and the UK.

Although the UK Government has stated its goal is for a “bespoke” agreement, it also appears likely such an agreement will have to broadly fit within one of the three possibilities outlined.

As stated in Chapter 1, Ireland has very strong trade links with the UK. Any change in the current arrangement is likely to have a negative effect on trade between the two countries. The extent of these negative consequences will depend on the type of trade agreement between the EU and the UK.

EEA/EFTA

What is EEA/EFTA?

The European Free Trade Association (EFTA) is made up of four countries (Iceland, Liechtenstein, Norway and Switzerland). EFTA manages the trade relationship among EFTA members, EFTA’s free trade agreements with third countries and the European Economic Area (EEA)³³.

³² Martina Lawless, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016). <[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

³³ European Free Trade Association, ‘The European Free Trade Association’ <<http://www.efta.int/about-efta/european-free-trade-association>> accessed 29 December 2016

The EEA, in effect, gives three EFTA members, Iceland, Liechtenstein and Norway (Switzerland is not part of the EEA) access to the European Single Market. EU Member States are automatically members of the EEA. Membership of the EEA requires the three EFTA countries to accept the Four Freedoms of EU legislation – the free movement of goods, services, people and capital, as well as in other areas such as research and development and education³⁴. The Four Freedoms are at the centre of the Common Market as they abolish discrimination on the basis of nationality. This allows citizens and companies of one Member State operate in all the other Member States without facing obstacles to their work/business.

The EEA, however, does not cover:

- Common Agriculture and Fisheries Policies (although the Agreement contains provisions on various aspects of trade in agricultural and fish products);
- Customs Union;
- Common Trade Policy;
- Common Foreign and Security Policy;
- Justice and Home Affairs (even though the EFTA countries are part of the Schengen area); or
- Monetary Union (EMU).

As the EFTA countries are outside the Custom's Union, they are able to negotiate free trade agreements with third countries. There are currently 25 free trade agreements between EFTA and 35 third countries. However, this means that the EEA countries do not have complete access to the EU Single Market. EEA exports must pass "rules of origin"³⁵ checks to be exported to the EU without a tariff being applied³⁶. There are also Customs checks along, for example, the Sweden-Norway border with customs officials from both countries carrying out checks. However, as Norway is part of the Schengen area there are no immigration checks.

Switzerland, while a member of EFTA, is not a member of the EEA. Switzerland has agreed a series of bilateral agreements since 1972 with the EU covering a wide range of areas. There are two key sets of bilateral agreements between the EU and Switzerland. The Bilateral Agreements I, signed in 1999, are an expansion of the 1972 Free Trade Agreement, such as the free-movement of persons, agriculture, land and air transport, and research. A guillotine clause is included in these agreements, meaning if one of the agreements is broken, the rest are suspended. The Bilateral Agreements II, go

³⁴ European Free Trade Agreement, 'EEA Agreement' <<http://www.efta.int/eea/eea-agreement>> accessed 29 December 2016

³⁵ Rules of origin determine the national source of a product. This is important as it is used to determine the 'nationality' of a product for the purpose of customs duties.

Source: WTO, 'Technical Information on Rules of Origin'

<https://www.wto.org/english/tratop_e/roi_e/roi_info_e.htm> accessed 30 January 2017

³⁶ European Union Committee, Brexit: the options for trade (House of Lords, 13 December 2016)

<<http://www.publications.parliament.uk/pa/ld201617/ldselect/ldecom/76/76.pdf>> accessed 16 December 2016

beyond the strictly economic remit of the Bilateral Agreements I, including aspects such as security, the environment and education³⁷.

Thus, there is a range of complex agreements in place and while these agreements appear to have been effective, the EU has expressed concerns with these arrangements, stating in 2010 that:

In full respect of the Swiss sovereignty and choices, the Council has come to the conclusion that while the present system of bilateral agreements has worked well in the past, the challenge of the coming years will be to go beyond this complex system, which is creating legal uncertainty and has become unwieldy to manage and has clearly reached its limits. In order to create a sound basis for future relations, mutually acceptable solutions to a number of horizontal issues [...] will need to be found.³⁸

EU Customs Union

The EU Customs Union allows all goods to circulate, tariff-free, within the Union, whether they are produced in or outside the Union. A common external tariff is paid on imports from outside the Union when they first enter the EU³⁹. This eliminates the need for checks on “rules of origin” on goods circulating with the EU, unlike goods coming from EEA countries.

The common external tariff is part of the EU’s Common Commercial Policy. The EU has the sole competence for engaging in trade discussions on behalf of the EU Member States, i.e. Member States are unable to negotiate their own trade deals.

The EU also has separate Customs Unions with Turkey, Andorra and San Marino⁴⁰ (in effect these countries have a customs union with the EU Customs Union). San Marino has a Customs Union with the EU for all products (except coal and steel)⁴¹. Turkey’s Customs Union with the EU however, excludes agricultural products as well as coal and steel⁴². These Customs Unions are not part of the EU Customs Union, which is a core component of the EU and therefore only includes EU Member States.

³⁷ Confédération Suisse, *Les accords bilatéraux Suisse-Union européenne* (2016)
<https://www.eda.admin.ch/content/dam/eda/fr/documents/publications/EuropaeischeAngelegenheiten/FS-Bilaterale_fr.pdf> accessed 29 December 2016

³⁸ Council of the European Union, ‘Council conclusions on EU relations with EFTA countries’ (2010)
<http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/foraff/118458.pdf> accessed 10 January 2017

³⁹ European Union, ‘Customs’ <https://europa.eu/european-union/topics/customs_en> accessed 10 January 2017

⁴⁰ European Commission, ‘Customs unions’ <https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/customs-unions_en> accessed 10 January 2017

⁴¹ European Commission, ‘San Marino: Customs Unions and preferential agreements’
<https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/customs-unions/san-marino-customs-unions-preferential-arrangements_en> accessed 10 January 2017

⁴² European Commission, ‘Turkey: Customs Unions and preferential agreements’
<https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/customs-unions/turkey-customs-unions-preferential-arrangements_en> accessed 10 January 2017

Limits of the model

In addition to the EU's concerns regarding the operation of the arrangements between the EU and Switzerland, there are other limits with the EFTA and EEA models. Members of the EEA are required to abide by the rules of the European Union by transposing EU legislation into national law, while having little or no say in the formulation of the EU legislation.

A Norwegian report in 2012 highlighted some of the shortcomings of the EEA agreement. While Norway's relationship with the EU has been "surprisingly stable and flexible"⁴³ there are numerous drawbacks to the arrangement. The main issue highlighted by the report is a democratic deficit:

The most problematic aspect of Norway's form of association with the EU is the fact that Norway is in practice bound to adopt EU policies and rules on a broad range of issues without being a member and without voting rights.⁴⁴

As it is not a member of the EU, Norway (and the other non-EU EEA members) have no say in the drafting of EU legislation and regulations, but as part of the EEA agreement they must implement any that are relevant to the areas covered by the agreement. This makes it difficult for democratic oversight over Norway's European policy⁴⁵. This arrangement however could be viewed as pragmatic as it is a compromise over full EU membership.

The EEA was originally intended to include seven countries, however it has ended up only applying to the three smallest countries (Austria, Finland and Sweden decided to join the EU, and Switzerland rejected joining by referendum)⁴⁶. Therefore, the influence of the EEA is considerably lower than was originally envisioned.

Possibility of UK joining EFTA/EEA

The possibility of the UK joining the EEA (or EFTA) appears to be remote, especially since Theresa May's speech in January outlining the UK's desire to leave the Single Market. Any form of partial membership now appears to have been ruled out by the UK Government.

This is not surprising as in this scenario the UK would retain (broadly) the same access to the EU Single Market it currently has, but it would no longer have a say in EU decisions. It would also require the UK to accept the principle of free movement of people, which was one of the cornerstones of the Leave campaign during the Referendum. The UK would also have to continue to provide funding to the EU, and as Norway's contribution to the EU budget is only 17% lower per

⁴³ Report by the EEA Review Committee, *Outside and Inside: Norway's agreements with the European Union* (2012) <http://www.eu-norway.org/Global/SiteFolders/webeu/NOU2012_2_Chapter_1.pdf>

⁴⁴ Report by the EEA Review Committee, *Outside and Inside: Norway's agreements with the European Union* (2012) <http://www.eu-norway.org/Global/SiteFolders/webeu/NOU2012_2_Chapter_1.pdf>

⁴⁵ Report by the EEA Review Committee, *Outside and Inside: Norway's agreements with the European Union* (2012) <http://www.eu-norway.org/Global/SiteFolders/webeu/NOU2012_2_Chapter_1.pdf>

⁴⁶ Report by the EEA Review Committee, *Outside and Inside: Norway's agreements with the European Union* (2012) <http://www.eu-norway.org/Global/SiteFolders/webeu/NOU2012_2_Chapter_1.pdf>

capita than that of the UK⁴⁷, this is unlikely to yield significant savings for the UK. It therefore seems unlikely that the UK will pursue this option.

Also, in evidence given to the House of Lords, Dr Sverup, Director of the Norwegian Institute of International Affairs, stated that the current EEA countries were unlikely to be very welcoming to idea of the UK joining the EEA, primarily due to the difference in size between the EEA countries and the UK (the current EEA members combined constitute less than 10% of the UK population). Additionally, diverging interests and political orientations were noted. Although EEA countries may not be open to the UK joining the EEA, Dr Sverup also believed that the EU would likely be in favour of letting the UK join the EEA⁴⁸. There appears to be little downside from an EU perspective of having the UK join the EEA as a non-EU member.

It has been suggested by, among others, Liam Fox⁴⁹ UK Minister for International Trade that the UK could remain in the Customs Union as a transitional agreement following the UK's exit from the EU. This would allow continued tariff-free trade between the EU and the UK and give both parties time to negotiate a long-term trade relationship. However, this has been called into question by Theresa May's speech in January, which outlined the UK's desire to break from the Common Commercial Policy and the Common External Tariff. While, Ms May also outlined the UK Government's desire to have a customs agreement with the EU⁵⁰, reconciling different external tariffs with a partial customs agreement was not expanded on.

Impact on Ireland

The UK remaining in the EEA, EFTA, or the Customs Union would be a best case scenario for Ireland (apart from the UK remaining a member of the EU) as it would represent the closest possible relationship to the current arrangement. This model would also have the least impact on the border with Northern Ireland, as any customs checks would not necessarily have to be constant (as is the case with the Sweden-Norway border). Dr Tom Healy told the Committee that a Customs Union would be "by far the most preferable outcome"⁵¹. Remaining a member of the EEA, EFTA or the Customs Union would also imply accepting free movement of labour, therefore there would be no need for immigration or identity checks at the border.

While this option no longer seems viable for the final negotiated agreement, it could form part of a transitional agreement which would give the economies of the EU27 and the UK more time to adjust to the future trading relationship.

⁴⁷ <http://cep.lse.ac.uk/pubs/download/brexit01.pdf>

⁴⁸ European Union Committee, Brexit: the options for trade (House of Lords, 13 December 2016) <<http://www.publications.parliament.uk/pa/ld201617/ldselect/ldeucom/76/76.pdf>> accessed 16 December 2016

⁴⁹ George Parker, 'UK may try to stay in EU customs union, says Liam Fox' *Financial Times* <<https://www.ft.com/content/f2f8b090-c511-11e6-9043-7e34c07b46ef>> accessed 12 January 2017

⁵⁰ Theresa May, 'Theresa May's Brexit Speech in Full' *The Telegraph* <<http://www.telegraph.co.uk/news/2017/01/17/theresa-mays-brexit-speech-full/>>

⁵¹ Tom Healy, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (25 October 2016). <[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161025~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

Free Trade Agreement

What are Free Trade Agreements?

There are many types of trade agreements with differing degrees of openness and scope across the economy. The EU identifies three types of trade agreements that it uses with third countries⁵²:

- Customs Unions;
- Association Agreements, Stabilisation Agreements, (Deep and Comprehensive) Free Trade Agreements and Economic Partnership Agreements; and
- Partnership and Cooperation Agreements.

A customs union (as described in the previous section) is one of the most integrated trade agreements, where participating countries agree to impose a common external tariff and eliminate tariffs within the customs union.

Comprehensive free trade agreements remove or reduce tariffs across a wide range of areas and often include the reduction of other, non-tariff, trade barriers. The EU currently has such agreements with countries such as Canada (awaiting final ratification) and South Korea.

Separate to these comprehensive free trade agreements, partnership and cooperation agreements provide a framework for bilateral economic relations, while not necessarily offering a reduction in tariffs. There is often a component of political and economic objectives included and these generally apply to developing countries only.

EU-UK Free Trade Agreement

Dr Martina Lawless, in her presentation to the Committee, highlighted that an “individually negotiated Canadian-style agreement may be the most likely in the longer run but will be extremely challenging to have completed by the exit date of March 2019”⁵³. This also appears to be the UK Government’s position following Theresa May’s speech on the 17th of January, where Ms May stated that the UK would seek “a bold and ambitious Free Trade Agreement with the European Union”⁵⁴.

A Canada (or CETA) style agreement would allow both parties to negotiate around their most important areas. CETA comprises a wide range of areas and goes beyond the simple reduction/removal of tariffs. The Agreement includes the continued levels of liberalisation in the

⁵² European Commission, ‘Agreements’ <<http://ec.europa.eu/trade/policy/countries-and-regions/agreements/>> accessed 16 January 2017

⁵³ Dr Martina Lawless, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016). <[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁵⁴ Theresa May, ‘Theresa May’s Brexit Speech in Full’ *The Telegraph* <<http://www.telegraph.co.uk/news/2017/01/17/theresa-mays-brexit-speech-full/>>

services sector, investment protection and investment dispute resolution mechanism and access to public procurement⁵⁵.

However, tariffs and other trade restrictions remain on certain products, especially agricultural products such as beef. Exports to the EU from Canada will have to meet EU regulations for that product⁵⁶. Canadian products must also satisfy the EU's rules of origin, with derogations in certain areas (such as some areas of fisheries)⁵⁷.

Negotiating a deep and comprehensive trade agreement is a long and arduous process. Negotiations over CETA began in 2009 and the agreement has yet to be fully applied. It seems highly unlikely, if not impossible, that such an agreement between the EU and the UK could be completed in the two year timeframe after the triggering of Article 50.

EU officials have stated that any agreement will have to be on worse terms than the current arrangement⁵⁸. While this is an ambiguous statement, it highlights the difficulty that will be involved in finding an agreement. In evidence to the House of Lords inquiry, Mr González García, an expert in international trade and dispute resolution, highlighted that negotiations between the EU and the UK would be unusual in that they will be looking to move backwards from the status quo rather than forwards⁵⁹.

In terms of attitude to negotiations, the Committee heard from Dr Edgar Morgenroth, from the ESRI, that there is a risk negotiations between the EU and UK may become "quite acrimonious"⁶⁰ and it may prove impossible to come to an agreement, of a permanent or transitory nature, thereby defaulting to WTO rules for trade.

Impact on Ireland

It is impossible to predict the precise effects on Ireland of a free trade agreement until the contents of the agreement are known, other than, as Mr Dan O'Brien highlighted to the Committee, any change from the current relationship will have a negative impact on Ireland. For example, a trade agreement excluding agriculture would have profound negative consequences for Ireland as agriculture is a major component of Ireland-UK trade. It is also worth noting that any impact on

⁵⁵ European Commission, 'CETA- Summary of the final negotiating results' (2016)

<http://trade.ec.europa.eu/doclib/docs/2014/december/tradoc_152982.pdf> accessed 26 January 2017

⁵⁶ Department of Jobs, Enterprise and Innovation, 'EU-Canada Comprehensive and Economic Trade Agreement : Information Note' (2016) <<https://www.djei.ie/en/Publications/Publication-files/EU-Canada-Comprehensive-Economic-Trade-Agreement-Information-Note.pdf>> accessed 12 January 2017

⁵⁷ European Commission, 'CETA- Summary of the final negotiating results' (2016)

<http://trade.ec.europa.eu/doclib/docs/2014/december/tradoc_152982.pdf> accessed 26 January 2017

⁵⁸ John Henley, Jennifer Rankin and Anushka Asthana, 'UK will have less than 18 months to reach deal, says EU Brexit broker' *The Guardian* (2016) <<https://www.theguardian.com/politics/2016/dec/06/uk-will-have-under-18-months-to-negotiate-deal-says-eus-brexit-broker>> accessed 26 January 2016

⁵⁹ European Union Committee, Brexit: the options for trade (House of Lords, 13 December 2016)

<<http://www.publications.parliament.uk/pa/ld201617/ldselect/ldcom/76/76.pdf>> accessed 16 December 2016

⁶⁰ Edgar Morgenroth, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

agriculture has an impact on rural and regional development, a priority for successive Irish Governments.

The timeline for agreement of a comprehensive free trade agreement could also prove problematic for Ireland, especially if a weak (or no) transitional agreement is put in place. If trade had to be conducted on WTO rules (see below), for even a number of years, it could have a devastating effect on businesses across the island.

A free trade agreement is also unlikely to provide a satisfactory answer to the issue of the Border with Northern Ireland. A customs union between the EU and the UK could allow for a soft border, however, unless this forms part of a transitional agreement it does not appear feasible in the short-term, considering the UK's current positions on issues such as immigration and international trade.

World Trade Organisation Rules

What are WTO rules?

WTO rules set out the rules for trading among its members. One of the main principles is the most-favoured-nation (MFN) treatment which precludes members from discriminating against trade partners⁶¹. Therefore, the same tariffs must be applied to all countries equally. Tariffs can be applied in two ways, *ad valorem* (a percentage of the value shipped) and per unit/weight⁶².

Countries (and trading blocs) can, however, implement regional trade agreements (RTA) (the term regional being used very loosely) to agree preferential access to each other's markets. The use of these agreements is widespread, with every member of the WTO having at least one RTA⁶³.

UK and the WTO

The UK is a member of the WTO in its own right, however, it does not operate as an individual member as the EU has responsibility for negotiations on behalf of the Member States. It therefore does not have any tariff schedules (the tariffs it imposes on each product imported into the country/trading bloc) of its own.

The first step will be for the UK to extricate itself from the EU tariff schedules. The simplest solution, as presented to the House of Lords European Union Committee, would be for the UK to adopt the same tariffs as the EU (at least initially) and trade on the basis of those tariffs⁶⁴. The UK could then begin to reduce tariffs on certain products, noting it is more complicated to increase tariffs due to

⁶¹ World Trade Organization, 'Principles of the trading system'

<https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm> accessed 29 December 2016

⁶² Martina Lawless and Edgar L. W. Morgenroth, 'The Product and Sector Level Impact of a Hard Brexit across the EU' (2016) ESRI Working Paper No. 550 <<https://www.esri.ie/pubs/WP550.pdf>> accessed 1 December 2016

⁶³ World Trade Organization, 'Regional trade agreements'

<https://www.wto.org/english/tratop_e/region_e/region_e.htm> accessed 29 December 2016

⁶⁴ European Union Committee, Brexit: the options for trade (House of Lords, 13 December 2016)

<<http://www.publications.parliament.uk/pa/ld201617/ldselect/ldecom/76/76.pdf>> accessed 16 December 2016

the WTO's "liberalisation bias"⁶⁵. However, the distribution of quotas and other areas, such as subsidies, has the potential to be much more complicated. This will involve the EU and the UK agreeing to split up the EU's current Tariff Rate Quotas (TRQs) and the levels of state subsidies allowed under its WTO commitments.

TRQs provide for lower tariffs up to a certain quantity for a particular good, with the standard tariff being applied over this level. It remains unclear how these TRQs will be divided (if at all), on both imports and exports, between the EU and the UK⁶⁶. The House of Lords European Union Committee also heard that the level of subsidies allowed (mostly agricultural) would also have to be divided between the EU and the UK. These negotiations would have to be concluded before the UK can present its own schedules to the WTO. If the EU were to keep the TRQs and subsidy levels, the UK could find itself in the position of having to fully renegotiate its own preferential accesses to markets with other countries⁶⁷.

Negotiating with the EU is not the only issue facing the UK, it will also have to get agreement on some areas from the other WTO members, some of whom will be keen to get better access to the British market or anxious not to be negatively affected by the UK's withdrawal from the EU's schedules⁶⁸.

Once the UK has established its own WTO schedules and has extricated itself from the EU and its trade agreements, it will be free to sign trade agreements with other countries. However, it may be difficult for the UK to start trade negotiations with other countries until its future relationship with the EU becomes clear. The UK will be unable to sign any trade agreements until they leave the EU. Federica Mogherini, High Representative of the Union for Foreign Affairs and Security Policy, stated that "as long as a Member State is a Member State, there are no negotiations bilaterally on any trade agreement with third parties"⁶⁹.

EU-UK trade under WTO rules

If the EU and UK are unable to come to an agreement on their future relationship or to extend the negotiating period beyond the two year deadline of Article 50, trade between the EU and the UK will default to the WTO rules.

⁶⁵ Dan O'Brien Oireachtas Joint Committee on Jobs, Enterprise and Innovation (25 October 2016). <[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161025~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁶⁶ European Union Committee, Brexit: the options for trade (House of Lords, 13 December 2016) <<http://www.publications.parliament.uk/pa/ld201617/ldselect/ldeucom/76/76.pdf>> accessed 16 December 2016

⁶⁷ European Union Committee, Brexit: the options for trade (House of Lords, 13 December 2016) <<http://www.publications.parliament.uk/pa/ld201617/ldselect/ldeucom/76/76.pdf>> accessed 16 December 2016

⁶⁸ Institute for Government, 'Brexit Brief: 10 things to know about the World Trade Organization' (2016) <<https://www.instituteforgovernment.org.uk/brexit/brexit-brief-10-things-know-about-world-trade-organization-wto>> accessed 29 December 2016

⁶⁹ RTE, 'UK PM May to say Britain is leaving EU's single market, customs union – report' (17 January 2017) <<https://www.rte.ie/news/2017/0116/845363-brexit-us-trump/>> accessed 30 January 2017

The EU's tariffs on most goods are low. However, certain areas are an exception, notably agricultural products (where tariffs are high primarily to protect indigenous producers) and vehicles (which are particularly sensitive to price changes). In addition to tariffs, businesses may incur significant costs navigating the customs processes which emerge.

A study by the ESRI⁷⁰ has calculated the WTO tariff rates that will apply on EU-UK bilateral trade and estimated the effect this will have on the levels of trade following the implementation of these tariffs. It should be noted that the ESRI study only examines the impact on the trade of goods. The study also makes the assumption that the UK will apply the current EU tariffs in its own tariff schedules. The average minimum tariff applied by the EU on UK exports to the EU would be 4.1%. The average minimum tariff on EU exports to the UK would be higher at 5.7%. There would be a significant variation in the tariff rate between different Member States. For example, the average tariff Luxembourg would have to impose on its imports from the UK would only be in the region of 2% while Ireland's average tariff would be in the region of 6%.

The difference is more pronounced with the tariffs the UK would impose, e.g. Ireland and Denmark's exports to the UK could face an average minimum tariff of over 10%, while Luxembourg could face tariffs of less than 4%. The differences in tariffs are due to the differences in the composition of trade between the UK and the EU Member States. Certain product types face significantly higher tariffs than others. The ESRI study highlights the sectors that will have the highest tariff rates (see table 2).

Table 2: Tariff by Goods Type⁷¹

Goods with Implied Tariffs over 10%	
Good type	Tariff rate
Meat	49.35%
Cereals	45.71%
Sugars & confectionary	42.00%
Tobacco	38.14%
Processed meat & fish	33.31%
Dairy, eggs, honey	31.34%
Flours	26.92%
Processed veg & fruit	20.86%
Food residues & animal feed	19.03%
Processed cereals	15.11%
Other edible preparations	14.44%
Cocoa & chocolate	11.79%
Clothes - knitted	11.63%
Clothes - not-knitted	11.62%
Footwear	10.35%

⁷⁰ Martina Lawless and Edgar L. W. Morgenroth, 'The Product and Sector Level Impact of a Hard Brexit across the EU' (2016) ESRI Working Paper No. 550 <<https://www.esri.ie/pubs/WP550.pdf>> accessed 1 December 2016

⁷¹ Ibid p16

The ESRI study also estimates the effect the imposition of tariffs will have on the trade in each sector. Trade in certain sectors (clothes and sugars and confectionary) could be eliminated, or at least, diminished, while others will be significantly affected. Figure 2 shows the sectors that will suffer a reduction in trade of over 20% due to the imposition of WTO tariffs. After clothes, food products are the most affected, these groups have among the highest tariffs (see table 2). Trade in vehicles would also be severely impacted (a reduction of almost 60%). Despite not having high tariffs, about 8%, it is a sector highly sensitive to price changes. It is also a significant sector for numerous countries (including the UK), therefore the reduction in trade will have a relatively high impact on the total reduction in trade.

Figure 2: Sectors with Trade Reductions over 20%⁷²

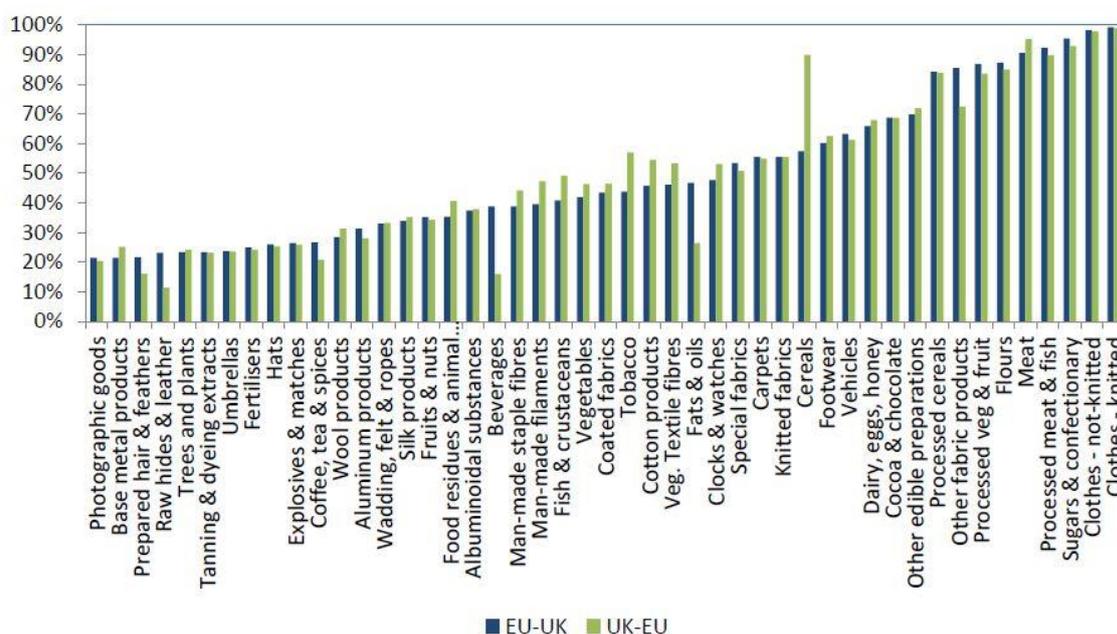
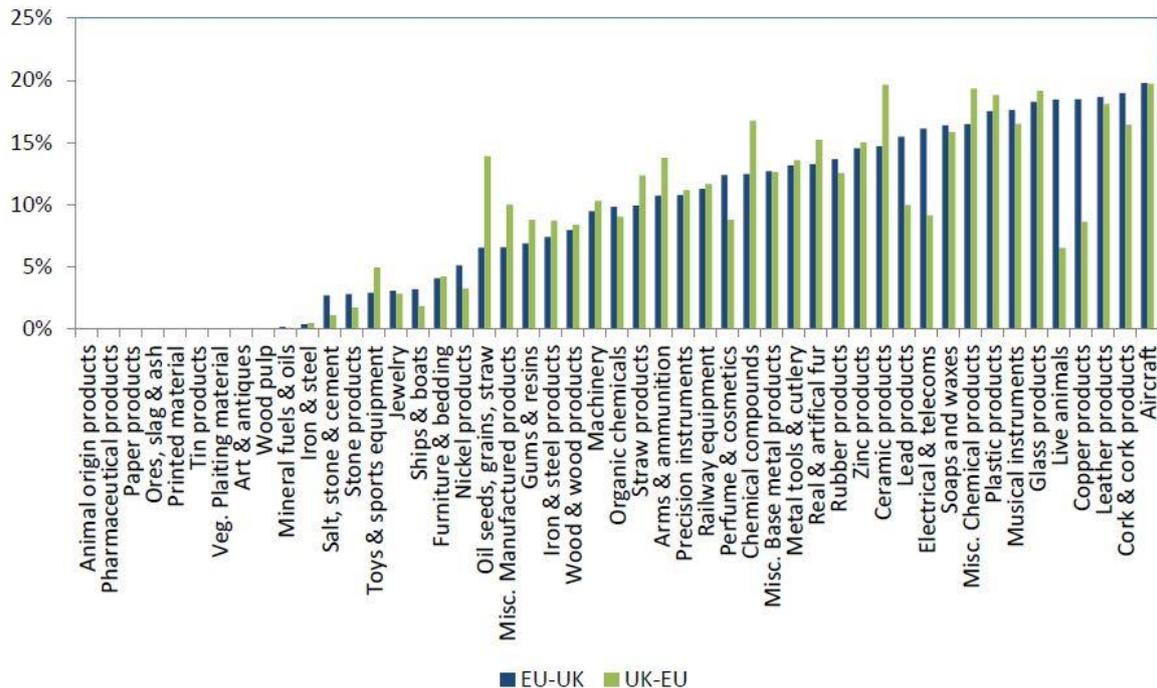


Figure 3 shows the sectors that will have less than 20% reduction. Some sectors will be unaffected as there are no (or low tariffs) and some sectors have a low trade price elasticity⁷³, where even in the event of tariff increases, there will be little reduction in trade. Many of the goods in figure 3 are primary goods (e.g. minerals) and intermediary products (e.g. plastic and rubber products). Countries whose trade with the UK is primarily concentrated on goods in figure 2 (including Ireland) will therefore be the most affected by the imposition of tariffs.

⁷² Martina Lawless and Edgar L. W. Morgenroth, 'The Product and Sector Level Impact of a Hard Brexit across the EU' (2016) ESRI Working Paper No. 550 <<https://www.esri.ie/pubs/WP550.pdf>> accessed 1 December 2016, p22

⁷³ Price elasticity refers to the responsive of demand to a change in price. Low price elasticity refers to a product that will not be subject to a sharp drop in demand if the price increases.

Figure 3: Sectors with Trade Reductions less 20%⁷⁴



The ESRI has also estimated the reduction in each Member State’s trade with the UK and the effect of the reduction on the Member State’s and the UK’s overall trade (see table 3). Many Member State’s trade with the UK will be severely affected. Slovakia’s exports to the UK would be the worst affected (59.11%) while Finland would be the least affected (5.54%). However, in terms of the effect of the reduction in UK trade on the Member State’s total trade, Ireland is the worst affected (4.17%) and Estonia is the least impacted (0.19%). The UK’s exports to Member States will also be heavily impacted, with Germany alone accounting for an almost 2% decrease in the UK’s total trade, followed by Ireland at 1.53%.

⁷⁴ Martina Lawless and Edgar L. W. Morgenroth, ‘The Product and Sector Level Impact of a Hard Brexit across the EU’ (2016) ESRI Working Paper No. 550 <<https://www.esri.ie/pubs/WP550.pdf>> accessed 1 December 2016, p22

Table 3: Trade Reductions relative to Bilateral and World Trade⁷⁵

Trade Reductions relative to Bilateral and World Trade				
	% of trade with UK	% of total trade	% UK trade with EU partner	% of total UK trade
Austria	20.22%	0.62%	24.77%	0.13%
Belgium	35.08%	3.13%	25.67%	0.97%
Bulgaria	30.45%	0.78%	17.52%	0.02%
Cyprus	11.33%	1.14%	33.44%	0.04%
Czech Rep.	31.78%	1.67%	19.32%	0.13%
Germany	34.14%	2.54%	19.44%	1.98%
Denmark	39.81%	2.53%	24.35%	0.18%
Spain	38.56%	2.87%	25.64%	0.73%
Estonia	7.49%	0.19%	22.48%	0.02%
Finland	5.54%	0.27%	26.59%	0.12%
France	24.88%	1.56%	20.92%	1.23%
Greece	28.35%	1.20%	27.15%	0.08%
Croatia	14.97%	0.26%	26.94%	0.01%
Hungary	28.60%	1.11%	28.44%	0.12%
Ireland	30.56%	4.17%	27.61%	1.53%
Italy	29.88%	1.65%	26.85%	0.76%
Lithuania	23.51%	1.05%	20.84%	0.02%
Luxembourg	16.08%	0.62%	14.82%	0.01%
Latvia	9.45%	0.48%	17.15%	0.01%
Malta	24.71%	1.59%	26.37%	0.03%
Netherlands	22.10%	1.98%	15.59%	0.89%
Poland	30.58%	2.08%	20.78%	0.25%
Portugal	33.04%	2.22%	27.70%	0.11%
Romania	43.42%	1.89%	23.77%	0.08%
Slovakia	59.11%	3.27%	21.35%	0.03%
Slovenia	20.83%	0.47%	21.63%	0.01%
Sweden	13.93%	1.00%	22.99%	0.33%
Total	30.47%	2.13%	22.25%	9.83%

The final row of table 3 shows the cumulative impact on trade for the EU27 and the UK. According to the ESRI's estimates, EU exports to the UK will drop by 30%, while UK exports to the EU will drop by 22%. However, as this represents trade with one partner for the EU Member States compared to 27 partners for the UK, it results in an almost 10% drop in the UK's total exports compared to drop of just over 2% for EU exports. This, once again, highlights that while most Member States are more exposed to the UK than the UK is to the individual Member State, as a whole the UK is more reliant on the EU than the EU is on the UK.

⁷⁵ Martina Lawless and Edgar L. W. Morgenroth, 'The Product and Sector Level Impact of a Hard Brexit across the EU' (2016) ESRI Working Paper No. 550 <<https://www.esri.ie/pubs/WP550.pdf>> accessed 1 December 2016, p24

Impact on Ireland

As discussed in Chapter 1, the UK market represents 13.6% of Irish goods exports. The UK being Ireland's closest geographical neighbour and the cultural closeness between the two countries means that the UK will continue to be an important trade partner for Ireland. However, the figures in table 3 show that Ireland will be particularly affected by EU-UK trade being conducted on the basis of WTO rules. The ESRI estimates that the imposition of WTO tariffs would reduce Irish exports to the UK by 30.56%, which would reduce total exports by 4.17%⁷⁶.

Trade between the UK and Ireland would also be impacted by the increased costs of crossing the border and added bureaucracy of exporting to the UK. All-island supply chains would also be put at risk due to the extra time and cost of navigating the customs process.

Agriculture is an important component of Irish exports to the UK and the tariffs on agricultural products are among the highest imposed by the EU. Mr Aidan Gough, highlighted to the Committee that the agricultural and agri-food sector is highly integrated across the Island. Mr Gough illustrated this point with the example of flour mills. There are three flour mills on the Island of Ireland, two of them in Belfast. The Belfast mills export 60% of their output to the Republic of Ireland. As the tariff on flour is high (€178 per tonne, representing a tariff in the region of 50%), the industry could be seriously affected.

As discussed in Chapter 1, 60% of milk produced in Northern Ireland is processed in plants in the Republic of Ireland, while 60% of pigs from the Republic are slaughtered in Northern Ireland. Both dairy and meat are among the products facing the highest tariffs (see table 2). The imposition of tariffs could create great difficulties for businesses both sides of the border.

⁷⁶ Martina Lawless and Edgar L. W. Morgenroth, 'The Product and Sector Level Impact of a Hard Brexit across the EU' (2016) ESRI Working Paper No. 550 <<https://www.esri.ie/pubs/WP550.pdf>> accessed 1 December 2016

Chapter 3 - Irish Response to Brexit

The previous chapters have highlighted the substantial risks posed to Ireland by the UK's decision to leave the EU. Since the Referendum, Government departments, businesses and other stakeholders have been preparing for Brexit, to attempt to mitigate the negative consequences but also to take advantage of any opportunities that may arise.

Post-Referendum Response

Government response

Since the Referendum result, the Irish Government has been active in preparing across all levels for the negotiations and managing the consequences of Brexit on the Irish economy and Irish society. Numerous engagements with stakeholders have been organised or attended by Government Ministers, with more planned in the coming months.

Deputy Mary Mitchell O'Connor, Minister for Jobs, Enterprise and Innovation, outlined to the Committee⁷⁷ the measures her Department has put in place since the Referendum. A new Brexit Unit has been created, as has a Brexit coordination group chaired by the Minister and including the CEOs of IDA Ireland and Enterprise Ireland and officials from across the Department.

The enterprise agencies also play a vital role in the response to Brexit. The Department secured an extra funding allocation of €1.7m for Enterprise Ireland and €750,000 for IDA Ireland. Enterprise Ireland will create 39 new posts, including 17 overseas. Nine extra staff have been announced for IDA Ireland⁷⁸.

Enterprise Ireland is in constant contact with their clients and has identified companies that are under, or could come under, pressure as a result of the Brexit vote and is providing assistance to their clients to overcome any difficulties, for example by aiding companies diversify their exports into new markets. IDA Ireland is also continuing to promote Ireland as a destination for investment and promote Ireland as an alternative location to the UK for investment in the EU.

It is important to note that there is a limit to the amount and precision of any preparations while the position of the UK remains unclear⁷⁹. Until it becomes clear what the UK wishes to achieve out of the negotiations, it will be difficult for the Government to put in place more specific contingency plans.

⁷⁷ Mary Mitchell O'Connor TD, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (15 December 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161215~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161215~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁷⁸ RTE News 'Enterprise Ireland and IDA allocated additional €3m to meet Brexit challenge' (1 February 2017) <<https://www.rte.ie/news/business/2017/0201/849255-ei-and-ida-given-extra-3m-to-meet-brexit-challeng/>> accessed 8 February 2017

⁷⁹ Dan O'Brien, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (25 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161025~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

Although the UK Government has published its white paper for the negotiations, these have yet to officially commence⁸⁰.

Business response

Businesses have also begun putting into place plans to deal with the consequences of Brexit. However, numerous stakeholders told the Committee that many businesses have yet to grasp the scale of the challenges ahead. Mr Kevin Sherry, of Enterprise Ireland, told the Committee that the level of preparedness varied across companies⁸¹. More starkly, Mr Gough, of InterTradelreland, told the Committee that, prior to the Referendum, InterTradelreland's business monitor reported that 97% of businesses had not planned for the eventuality of a vote to leave⁸².

Ms Patricia Callan, of the SFA, presented an even more worrying view that many businesses were still not putting contingency plans in place as they do not believe, or are not aware, that the consequences of Brexit could extend to their area of business⁸³. Mr McKeever, of the Irish Exporters Association, also pointed out that it is not just exporters that will be affected, but the whole supply chain⁸⁴.

Some businesses have, however, been very proactive in their planning post-Brexit. Enterprise Ireland is aiding its client companies to examine diversifying their export markets⁸⁵. However, as highlighted by Mr McGrane, it is not a simple exercise to diversify markets and requires a large investment in time and capital⁸⁶. The UK market is not only the closest market to Ireland and close culturally, it is

⁸⁰ HM Government, *The United Kingdom's exit from and new partnership with the European Union* (February 2017)

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589191/The_United_Kingdoms_exit_from_and_partnership_with_the_EU_Web.pdf> accessed 9 February 2017

⁸¹ Kevin Sherry, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁸² Aidan Gough, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁸³ Patricia Callan, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁸⁴ Simon McKeever, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁸⁵ Kevin Sherry, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁸⁶ John McGrane, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).

<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

also one of the easiest markets in which to do business⁸⁷, therefore any decision to move to a different market will have to take into account the increased costs of doing business in that market.

In contrast to the potential benefit of UK companies relocating to Ireland, some Irish companies have also started looking to the UK as a possible base or to increase their supply in Sterling to protect against currency fluctuations. The British-Irish Chamber of Commerce told the Committee it has already been aiding businesses with requests to help move part of their operations to the UK⁸⁸.

Opportunities

Although the majority of the presentations to the Committee centred on the risks involved with Brexit, some opportunities were also highlighted. Multiple stakeholders saw opportunities for Ireland in financial services.

Depending on the UK's future relationship with the EU, the ability of financial institutions to continue serving their EU-based clients from London could be compromised. Some financial institutions may, therefore, decide to relocate part of their business to retain access to the Single Market. Dublin is one of the locations that could attract a number of financial institutions, as passporting rights to the EU market are very important to this sector. However, other cities will also be vying for these institutions, including Frankfurt, Paris, Luxembourg, Amsterdam and Madrid.

More generally, increasing FDI is also a possible opportunity as multinational firms may reassess decisions to invest in the UK, especially if the EU is an important market. Other firms present in the UK may wish to establish a base within the EU to continue serving the Single Market on the same terms as they currently enjoy. IDA Ireland is already in contact with such firms and continues to promote Ireland as a top destination for FDI⁸⁹.

Another opportunity, highlighted in particular by Mr McGrane, is the future location of EU agencies currently in the UK. Dublin would be an option for the relocation of these agencies, although there will be considerable competition from other cities across the European Union.

Third-level education is another area that could see opportunities emerge as EU funding previously directed to UK institutions may become available for redistribution. Irish universities could also benefit from researchers leaving the UK and bringing their expertise and funding with them to Ireland.

While these opportunities could be positive for the Irish economy, it is important to note that, even if the positives were to counter the negatives the timeline for such benefits will be much longer term

⁸⁷ Simon McKeever, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁸⁸ John McGrane, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (8 November 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161108~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161108~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁸⁹ Denis Curran, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (18 October 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161018~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161018~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

than the timeline for the costs⁹⁰. The benefits will only be seen in the long term, whereas the negatives are already having an impact. Ms Patricia King of ICTU also reminded the Committee that the types of opportunities being mentioned (notably in financial services) would not replace the jobs lost in rural manufacturing jobs⁹¹. Many of the opportunities being discussed would seem to be more likely to be based in Dublin and the larger urban areas, rather than rural and border areas, which seem to be the areas likely to be the most impacted by the consequences of Brexit.

Recommendations

The Committee's engagement with the stakeholders has raised a number of issues that should be considered as Brexit negotiations take place and the Irish Government continues its preparations for the consequences of the UK exit.

Voice in negotiations

The Committee heard on numerous occasions that it is vital that Ireland has a strong voice in the EU negotiations with the UK. Ireland's deep relationship with the UK must be understood and taken on board by the EU negotiating team. The fall-back on WTO tariffs should be avoided, with a transitional agreement necessary in the (likely) event that there is no agreement on the future relationship between the EU and the UK.

The unique position of Northern Ireland, which has held membership status within the EEC and EU since 1973, must also be at the forefront of negotiations. Consideration must be given to a special status for Northern Ireland and the preservation of the peace process and the Good Friday Agreement must be a priority.

It is also important that negotiations remain as constructive as possible and avoid disputes which may compromise an agreement being reached in the timeframe. It will be of no benefit to either the EU27 or the UK for the agreement being seen as punishing the UK. This does not preclude that by the very nature of Brexit, the trading relationship between the EU and the UK will be inferior (not as open) as the status quo, unless the UK decide to accept EU rules, including the Four Freedoms.

⁹⁰ Martina Lawless, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (25 October 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161025~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

⁹¹ Patricia King, Oireachtas Joint Committee on Jobs, Enterprise and Innovation (25 October 2016).
<[http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/\(\\$vLookupByConstructe dKey\)/committees~20161025~JEJ/\\$File/Daily%20Book%20Unrevised.pdf?openelement](http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/WebAttachments.nsf/($vLookupByConstructe dKey)/committees~20161025~JEJ/$File/Daily%20Book%20Unrevised.pdf?openelement)>

Recommendations

1. The Committee recommends that Ireland be a strong voice arguing for a transitional agreement being put in place until the UK's relationship with the EU can be agreed. It is important that this agreement be as close to the status quo as possible.
2. The Committee recommends that as part of the Brexit negotiations, it is essential to argue the case for designated special status for Northern Ireland within the European Union, which includes:
 - Protection of the peace process and protection and full implementation of the Good Friday Agreement and subsequent agreements;
 - Access to the EU Single Market;
 - Maintain access to all EU Funding streams;
 - Remain part of the Common Travel Area;
 - Maintain access to EU institutions including the European Court of Justice, the European Court of Human Rights and EU sectoral agreements;
 - Protect access to EU rights pertaining to employment, social security and healthcare;
 - Protect the right of Northern Irish citizens as Irish and, therefore, EU citizens, and all rights pertaining thereto.
3. The Committee recommends that Ireland approaches the negotiations with the emphasis on keeping the discussions constructive and avoid unnecessary disputes between the UK and other Member States.

International reputation

Ireland must continue to present itself globally as a country open to investment and a perfect base for operations in the EU. The enterprise agencies must continue to aid businesses to set up in Ireland and export around the world. Extra funding should be made available where necessary for the enterprise agencies to offer the best possible services to businesses around the country.

Recommendations

4. The Committee recommends that the enterprise agencies (Enterprise Ireland, IDA Ireland and InterTradeIreland) receive extra funding where necessary to allow them offer the best services possible to businesses in an attempt to mitigate the effects of Brexit.

EU reform

Ireland remains committed to the European project and are proud Europeans⁹². However, this is not to say that there are not areas that need reform. The Government should consider reform of fiscal rules, notably to allow extra room for investment. The Committee agrees that the stability of the Euro area is paramount and that fiscal rules need to be in place. However, there is a need for greater distinction between current and capital spending when calculating deficit limits. Extra investment in infrastructure would allow Member States better prepare their economies for future shocks and set the foundations for economic growth. Allowing for extra capital spending would not only help Member States mitigate the effects of Brexit, it could provide opportunities for economic growth, particularly in the short-term when the most drastic impacts of Brexit are likely to be felt.

Exemptions to European state aid rules should also be put in place for a number of years, to allow governments provide increased assistance to businesses struggling as a result of Brexit. This is notably the case for businesses under pressure due to the drop in the value of Sterling. The introduction of short term measures would allow businesses some time and space to make changes to their business plans and operations. However, the Committee recognises that these measures must be short-term and must not disproportionately impact competition rules.

Ireland and the EU must also avoid any driving down of standards, especially if the UK embarks on a reduction in environmental standards, wages and employment rights. It is important that the EU (and Ireland) retain strong standards and be a world leader in issues such as employee protection.

Recommendations

5. The Committee recommends that the Government seeks changes in EU fiscal rules to allow for more capital investment.
6. The Committee recommends the Government seek exemptions to EU state aid rules due to Brexit. This will be aimed at relieving the distress on working people of any economic upheaval and to help in the provision of services.
7. The Committee recommends that EU standards and protections in environmental and employment law are maintained.

⁹² According to a Eurobarometer report

(<http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/STANDARD/surveyKy/2137>) published in December 2016, 77% are optimistic about the future of the EU and 55% have a positive image of the EU, compared to only 13% having a negative view.

Irish Economy

Beyond international responses to Brexit, there are also internal responses that could be taken to attempt to mitigate the Brexit- associated risks.

The Committee is particularly concerned about the preparedness of Irish businesses, notably SMEs, to deal with the consequences of Brexit. It is important that there is an understanding that SMEs and indigenous firms will, in all likelihood, face higher risks than FDI firms. The sectors at risk, such as agri-food, should be particularly targeted. SME's must be aided in understanding what risks they may face, as well as any aids available to them through, for example, the LEOs.

As the Committee has heard that some Irish-based companies have already started considering moving part of their operations to the UK, it is necessary for the Department of Jobs, Enterprise and Innovation to have a metric allowing them to track such movements. It would also allow the Department and its agencies to gain a better understanding of the reasons behind such moves and possibly put in place measures to keep the operations in Ireland.

Investment in education should also be a priority. Preparing future generations for further employment and providing a highly skilled, innovative workforce is important to allow Ireland thrive in a changing, post-Brexit world economy. The more skilled labour available in the country, the more attractive it will be for FDI and enable the creation of indigenous businesses, which would lead to increased employment.

There should also be an increase in investment in infrastructure (transport, broadband etc.) around the country to allow all parts of the country compete for investment. The Committee is aware that of the opportunities mentioned in relation to Brexit few seem to be in rural areas that are likely to be hardest hit by Brexit.

It is also important that Ireland is in a position to take advantage of any opportunities related to UK-based firms wishing to relocate to within the EU. It is, therefore, vital that there be sufficient and affordable housing and office space in Dublin and around the country to encourage these firms to choose Ireland as their EU base.

Recommendations

8. The Committee recommends that a nationwide campaign be launched to increase awareness surrounding the risks of Brexit to SMEs, both directly and indirectly involved in exporting to the UK and those in vulnerable sectors. The campaign should also direct businesses to the aid that is in place to help them prepare for the consequences of Brexit.
9. The Committee recommends that Governments in both jurisdictions across the island of Ireland bring together unions and employers to develop an "early warning system" that would identify at risk sectors and enterprises and establish appropriate retraining resources and systems.

- 10.** The Committee recommends that the Department of Jobs, Enterprise and Innovation and its agencies develop measures to track the number of Irish businesses locating at least part of their operations to the UK, to determine what measures can be taken to reduce this.
- 11.** The Committee recommends that investment in education be increased to ensure a skilled and innovative workforce.
- 12.** The Committee recommends that investment in infrastructure, especially transport and broadband, across the regions should be increased to mitigate the consequences of Brexit especially for rural communities.
- 13.** The Committee recommends that investment in housing and office space, where required, be increased and facilitated to meet the needs of working people and to allow Ireland to exploit any opportunities arising from firms wishing to locate from abroad.

Appendices

Appendix 1: Committee Membership

Deputies: Mary Butler (FF) [Chair]

Niall Collins (FF)

Stephen Donnelly (FF)

Tom Neville (FG)

Maurice Quinlivan (SF)

Noel Rock (FG)

Bríd Smith (AAA-PBP)

Senators: Aidan Davitt (FF)

Paul Gavan (SF)

Ged Nash (LAB)

James Reilly (FG)

Appendix 2: Terms of Reference

a. Functions of the Committee – derived from Standing Orders [DSO 84A; SSO 70A]

- (1) The Select Committee shall consider and report to the Dáil on—
 - (a) such aspects of the expenditure, administration and policy of a Government Department or Departments and associated public bodies as the Committee may select, and
 - (b) European Union matters within the remit of the relevant Department or Departments.
- (2) The Select Committee appointed pursuant to this Standing Order may be joined with a Select Committee appointed by Seanad Éireann for the purposes of the functions set out in this Standing Order, other than at paragraph (3), and to report thereon to both Houses of the Oireachtas.
- (3) Without prejudice to the generality of paragraph (1), the Select Committee appointed pursuant to this Standing Order shall consider, in respect of the relevant Department or Departments, such—
 - (a) Bills,
 - (b) proposals contained in any motion, including any motion within the meaning of Standing Order 187,
 - (c) Estimates for Public Services, and
 - (d) other mattersas shall be referred to the Select Committee by the Dáil, and
 - (e) Annual Output Statements including performance, efficiency and effectiveness in the use of public monies, and
 - (f) such Value for Money and Policy Reviews as the Select Committee may select.
- (4) The Joint Committee may consider the following matters in respect of the relevant Department or Departments and associated public bodies:
 - (a) matters of policy and governance for which the Minister is officially responsible,

- (b) public affairs administered by the Department,
 - (c) policy issues arising from Value for Money and Policy Reviews conducted or commissioned by the Department,
 - (d) Government policy and governance in respect of bodies under the aegis of the Department,
 - (e) policy and governance issues concerning bodies which are partly or wholly funded by the State or which are established or appointed by a member of the Government or the Oireachtas,
 - (f) the general scheme or draft heads of any Bill,
 - (g) any post-enactment report laid before either House or both Houses by a member of the Government or Minister of State on any Bill enacted by the Houses of the Oireachtas,
 - (h) statutory instruments, including those laid or laid in draft before either House or both Houses and those made under the European Communities Acts 1972 to 2009,
 - (i) strategy statements laid before either or both Houses of the Oireachtas pursuant to the Public Service Management Act 1997,
 - (j) annual reports or annual reports and accounts, required by law, and laid before either or both Houses of the Oireachtas, of the Department or bodies referred to in subparagraphs (d) and (e) and the overall performance and operational results, statements of strategy and corporate plans of such bodies, and
 - (k) such other matters as may be referred to it by the Dáil from time to time.
- (5) Without prejudice to the generality of paragraph (1), the Joint Committee appointed pursuant to this Standing Order shall consider, in respect of the relevant Department or Departments—
- (a) EU draft legislative acts standing referred to the Select Committee under Standing Order 114, including the compliance of such acts with the principle of subsidiarity,
 - (b) other proposals for EU legislation and related policy issues, including programmes and guidelines prepared by the European Commission as a basis of possible legislative action,
 - (c) non-legislative documents published by any EU institution in relation to EU policy

matters, and

- (d) matters listed for consideration on the agenda for meetings of the relevant EU Council of Ministers and the outcome of such meetings.
- (6) Where a Select Committee appointed pursuant to this Standing Order has been joined with a Select Committee appointed by Seanad Éireann, the Chairman of the Dáil Select Committee shall also be the Chairman of the Joint Committee.
- (7) The following may attend meetings of the Select or Joint Committee appointed pursuant to this Standing Order, for the purposes of the functions set out in paragraph (5) and may take part in proceedings without having a right to vote or to move motions and amendments:
- (a) Members of the European Parliament elected from constituencies in Ireland, including Northern Ireland,
- (b) Members of the Irish delegation to the Parliamentary Assembly of the Council of Europe, and
- (c) at the invitation of the Committee, other Members of the European Parliament.
- (8) A Select Committee appointed pursuant to this Standing Order may, in respect of any Ombudsman charged with oversight of public services within the policy remit of the relevant Department or Departments, consider—
- (a) such motions relating to the appointment of an Ombudsman as may be referred to the Committee, and
- (b) such Ombudsman reports laid before either or both Houses of the Oireachtas as the Committee may select.

b. Scope and Context of Activities of Committees (as derived from Standing Orders) [DSO 84; SSO 70]

- (1) The Joint Committee may only consider such matters, engage in such activities, exercise such powers and discharge such functions as are specifically authorised under its orders of reference and under Standing Orders; and
- (2) Such matters, activities, powers and functions shall be relevant to, and shall arise only in the context of, the preparation of a report to the Dáil and/or Seanad.
- (3) The Joint Committee shall not consider any matter which is being considered, or of which notice has been given of a proposal to consider, by the Committee of Public Accounts pursuant to Standing Order 186 and/or the Comptroller and Auditor General (Amendment) Act 1993; and
- (4) any matter which is being considered, or of which notice has been given of a proposal to consider, by the Joint Committee on Public Petitions in the exercise of its functions under Standing Orders [DSO 111A and SSO 104A].
- (5) The Joint Committee shall refrain from inquiring into in public session or publishing confidential information regarding any matter if so requested, for stated reasons given in writing, by—
 - (a) a member of the Government or a Minister of State, or
 - (b) the principal office-holder of a body under the aegis of a Department or which is partly or wholly funded by the State or established or appointed by a member of the Government or by the Oireachtas:

Provided that the Chairman may appeal any such request made to the Ceann Comhairle / Cathaoirleach whose decision shall be final.
- (6) It shall be an instruction to all Select Committees to which Bills are referred that they shall ensure that not more than two Select Committees shall meet to consider a Bill on any given day, unless the Dáil, after due notice given by the Chairman of the Select Committee, waives this instruction on motion made by the Taoiseach pursuant to Dáil Standing Order 28. The Chairmen of Select Committees shall have responsibility for compliance with this instruction.