



Inspiring business

IoD Policy Report November 2016

The Irish Question

Brexit, business and the future
of UK-Ireland relations



Foreword by Simon Walker



Simon Walker
Director general,
IoD

Few in the business community are naïve to the challenges that Brexit negotiations will present when they get underway in earnest next year. Nor are company directors oblivious to the fact that an end settlement on trading terms between the UK and the EU may come on the back of complex trade-offs between national governments. The goal for policy makers will be to ensure that they don't settle on concessions that dampen short-term political tensions at the expense of long-term economic confidence.

There are few countries within the remaining EU bloc that are as tied economically to the UK as the Republic of Ireland, and certainly none with such deep cultural and political connections. In this sense, the border between the UK and the Republic will be a key frontier for UK negotiators, and the reaction of businesses in both countries to the final settlement will be an important bellwether in measuring the overall impact of Brexit. We simply can't afford to get it wrong.

Many of the issues set out in this paper are relevant to businesses across the EU, not just Irish and UK firms doing business with one another. However, these issues are undoubtedly amplified across the UK-Irish border. Up to a third of IoD members across the UK have business links with the Republic of Ireland, while 75 per cent of IoD Ireland members are linked with companies and consumers in the UK. These ties are not to be sniffed at. Moreover, the sensitive political hurdles implicit in deconstructing some of the ties between Northern Ireland and the Republic will challenge negotiators to look beyond the normal give and take of international trade discussions. These concerns must be addressed, and in good time.

I'm very pleased that the IoD has been able to join forces with colleagues in the Republic of Ireland to make this important contribution to the early stages of the debate. Needless to say, close collaboration and dialogue between business groups across the UK and EU member states will be vital in informing the discussion over Brexit as it evolves. I urge all policy makers to take note of the data and proposals laid out in this report.

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He holds a BA International in history, politics and international relations from University College Dublin, where he was awarded a Parnell scholarship and won the TD Williams medal for graduating first place in his class.

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Introduction

Brexit poses both opportunities and challenges for the UK. Perhaps the most cumbersome legislative task for any British administration in history, the task of withdrawing the United Kingdom from the European Union will take time and careful consideration. One of the most difficult challenges for the UK government will be addressing the unique complexities presented by Northern Ireland.

Northern Ireland is the only part of the United Kingdom that shares a land border with another country. That country, the Republic of Ireland, will continue to be a member of the European Union after the UK leaves. The shared history of Northern Ireland and the Republic of Ireland therefore makes the considerations around Brexit for Northern Ireland especially important.

Since 1973, when both countries joined the EU's precursor, the European Economic Community (EEC), businesses in the Republic of Ireland and the United Kingdom have become entwined. The UK leaving the European Union implies significant changes for these businesses and both countries' economies. In that sense, Northern Ireland will be the litmus test for Brexit. If the UK and Ireland can manage to overcome the many intricate and complicated difficulties Northern Ireland presents for Brexit, then the UK government will have gone a long way to ensuring the best possible outcome of Brexit for the whole United Kingdom.

This paper details the perspective of the members of IoD UK and IoD Ireland on these implications. The paper sets out the peculiarities of Brexit for Northern Irish businesses and the Northern Irish economy. It highlights a number of issues and concerns which the UK government will need to bear in mind when negotiating this country's withdrawal from the European Union. The paper aims to inform and advise the government of the concerns of IoD members so as to enable the government to begin their withdrawal negotiations from the best possible position of knowledge and understanding.

The IoD stands ready to support the UK government in their efforts to ensure the future success of British business, our economy and wider society after this country leaves the European Union.

Making a success of Brexit

Since 1973, when both countries became members of the European Economic Community, the EU's precursor, businesses in the Republic of Ireland and the United Kingdom have become intertwined. The UK leaving the European Union implies significant changes for these businesses and both countries' economies. This paper details the perspective of the members of IoD UK and IoD Ireland on these implications.

Brexit and IoD members

According to the most recent figures, 68,085 businesses operating in Northern Ireland¹. Three per cent of IoD UK members are based primarily in Northern Ireland, but 29 per cent of IoD UK members have business links (including supply chains, sales and employees) across the border between the UK and the Republic of Ireland². Of these businesses, 42 per cent do under a quarter of their operations across the Northern Ireland-Ireland border and, for most, up to 20 per cent of their revenues or sales come from cross-border business with the Republic of Ireland.

Trade

The United Kingdom's decision to leave the European Union carries major repercussions for cross-border trade between the UK and Ireland. The Republic of Ireland's relationship with the UK is unique in a number of ways – politically, economically, culturally, legally and inter-personally. One in four people in Britain can claim Irish heritage, while in the business world almost 60,000 UK company directors are Irish-born. A study by the Irish Economic and Social Research Institute has warned that Brexit could reduce bilateral trade flows between Ireland and the UK by 20 per cent or more⁴. All sides must do everything possible to protect these hard-won positive links.

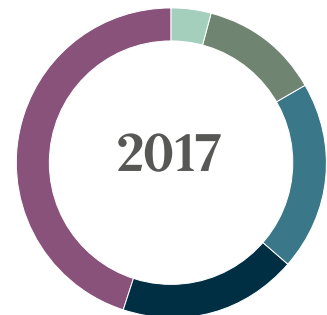
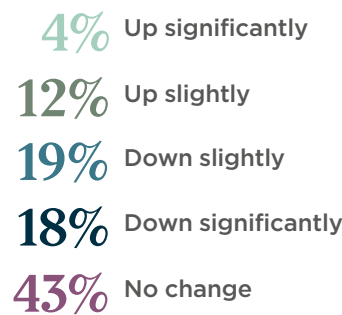
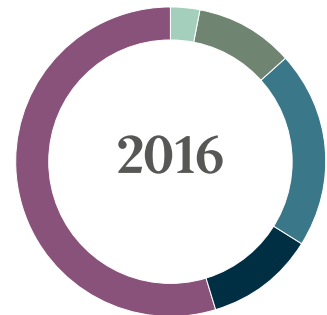
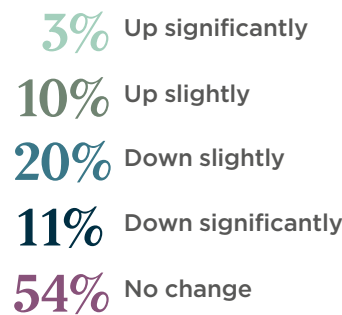
¹ Northern Ireland, Department for the Economy, Inter-Departmental Business Register (IDBR), 27 January 2016: economy-ni.gov.uk/articles/inter-departmental-business-register-idbr

² IoD UK members survey October 2016.

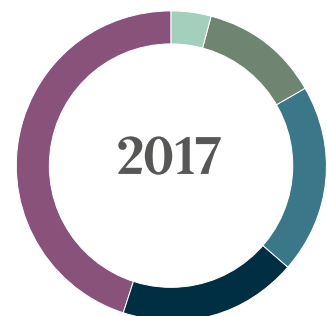
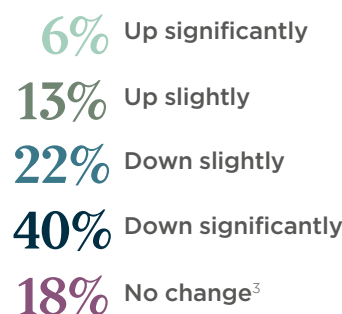
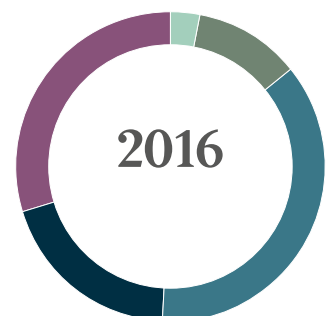
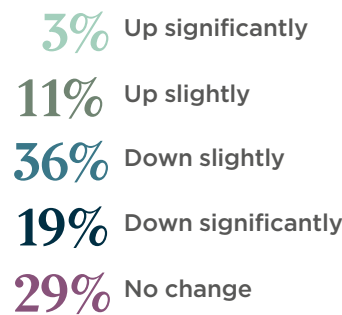
³ IoD UK members survey October 2016.

⁴ Scoping the Possible Economic Implications of Brexit on Ireland, The Economic and Social Research Institute (ESRI), 5 November 2015: esri.ie/publications/scoping-the-possible-economic-implications-of-brexit-on-ireland-2/

After Brexit, IoD UK members have altered the revenue growth forecasts for their firm for 2016-17*



When asked about their expectations for the wider economy for 2016 and 2017



*All charts excluding 'don't know's'

The Republic of Ireland is also unique in being the only country that shares a land border with the UK. That 499km (310 miles) border between Northern Ireland and the EU member state of the Republic of Ireland has historically been an open one, allowing businesses to flourish to the extent that the UK now trades as much with the Republic of Ireland as it does with China.

The UK is Ireland's largest trading partner and the Republic of Ireland is the fifth largest destination for UK exports. Over £1bn in goods and services are exchanged between the Republic of Ireland and the UK every week, while the Dublin-London route is the second busiest air route in Europe, emphasising the extent of interaction and trade between these islands. Trade between Northern Ireland and the Republic of Ireland is also significant at around £2.2bn per year⁵, and the Republic continues to dominate Northern Ireland's export market, accounting for approximately 37 per cent of total NI exports, worth £3.6bn per year.

One-third (29 per cent) of IoD UK members have business links with the Republic of Ireland⁶ while 75 per cent of IoD Ireland members have business links with the UK⁷. Companies stepping into exporting for the first time can make baby steps by experimenting with their very near neighbours before venturing further afield. Brexit, therefore, must not become an impediment to the movement of people, goods, services and capital.

Some sectors of the Northern Irish economy are very heavily interdependent on these two islands – agrifood, hospitality and tourism being prime examples. Any barriers imposed on trade between the UK and the Republic of Ireland or the rest of the EU will significantly impact such sectors, with knock-on effects for employment in Northern Ireland. The UK government must endeavour to ensure trade between the UK and Ireland remains as open as possible after Brexit. The alternative would mean that after Brexit, without a compromise agreement, businesses

in the Republic of Ireland could be able to trade freely with countries as far away as Canada but not be able to trade across the border with their nearest neighbour Northern Ireland. The consequences for NI businesses and employment would therefore be severe⁸.

IoD NI members are worried about potential increases in regulatory burdens as a result of the UK's decision to leave the EU. Twenty-two per cent think Brexit will have a "very negative" effect on red tape for their business and 25 per cent think the effect will be "somewhat negative". Thirty per cent believe the effect will be "neither positive nor negative" and expect no difference in the regulatory landscape for their business after Brexit. Just 11 per cent are "somewhat positive" about the effect of regulatory change, while only three per cent think it will be "very positive". Border delays comprise a prominent worry for the future. One-fifth (20 per cent) think border delays would be very negative for their business. A third (33 per cent) say the impact would be somewhat negative, while 41 per cent believe the effect will be neither positive nor negative. Not one believes border delays would be even somewhat positive for their business⁹.

Cross-border supply chains

It is critical to businesses in the UK and Republic of Ireland that both indigenous and foreign direct investment (FDI) companies retain their competitiveness and do not incur unnecessary additional costs or barriers. Crucially, any impediment to supply chains must be minimised. The more impediments that exist to doing business, the less business that will be done. Cross-border trade could fall further if UK and EU rules, which can cover everything from food labelling to environmental standards, diverge. If the UK leaves the EU single market and customs union when it leaves the EU, these new impediments would be considerable for cross-border supply chains.

⁵ HM Revenue & Customs Regional Trade Statistics, Northern Ireland, 6 September 2016: uktradeinfo.com/Statistics/RTS/Pages/default.aspx

⁶ IoD UK members survey October 2016.

⁷ IoD Ireland members survey October 2016.

⁸ EU-Canada, Comprehensive Economic and Trade Agreement (CETA), 30 October 2016: http://ec.europa.eu/trade/policy/in-focus/ceta/index_en.htm

⁹ IoD UK members survey October 2016.

The large fall in sterling vis-a-vis the euro since the 23 June referendum has already resulted in Irish-made goods and services becoming more expensive for UK businesses that rely on cross-border supplies. As a result, some Irish companies have already gone out of business¹⁰. With the fall in sterling, the purchasing power of the UK has been reduced. This has made the UK a less attractive market to sell to, and a more difficult market for UK businesses to buy from, the EU. IoD UK members need to retain as far as possible the ease and affordability with which they currently trade with the Republic of Ireland and other EU member states. This is why exchange rate volatility is listed as the number one short- to medium-term concern for IoD UK members right now¹¹. Thirty-nine per cent of IoD NI members say exchange rate volatility is having a very negative effect on their business. Thirty-four per cent say the effect is somewhat negative, while 15 per cent report it is neither positive nor negative. Just 10 per cent have had a somewhat positive effect, while only one per cent say it has been very positive.

The fall of sterling has also hurt Irish exporters, who sell £15bn of products to the UK annually. For ROI businesses, as sterling has weakened, exports to the UK have become less competitive, but imports from the UK have become cheaper. The UK takes two-fifths of Irish-owned firms' exports. Irish livestock and dairy farmers are struggling, and several Irish agricultural businesses, which export around two-fifths of their produce to Britain but which also operate on very tight margins of typically two per cent, have already closed¹². The Republic of Ireland is currently the UK's single biggest supplier of food and drink, an industry that provides about one in 12 Irish jobs. The UK buys 84 per cent of Ireland's poultry exports, 65 per cent of

its cheddar cheese exports and 80 per cent of the entire Irish mushroom crop¹³. The pain for these businesses will worsen as sterling's fall and Brexit-induced business uncertainty hit demand in the UK¹⁴. The result could be a challenging time for UK food businesses, retailers and restaurants.

A similar concern is the impact that a UK exit from the EU's common fisheries policy (CFP) could have on marine businesses who have historically exercised their fishing rights in what were shared waters. Currently, Britain's territorial waters, which stretch from 12 miles to 200 miles, are governed by the CFP when it comes to fishing rights. Leaving the CFP could prove particularly troublesome for marine businesses, boat landings, marine stocks and cargo supplies based in or supplying the border ports of Warrenpoint and Foyle/Londonderry Port. The current territorial dispute between the Irish and UK governments over the ownership of and extent to which each side exercises jurisdiction within Lough Foyle and Carlingford Lough exemplifies the diplomatic as well as commercial complexities which could have to be resolved¹⁵.

It should be noted, however, that for those businesses which are not overly reliant on imports from within the EU, the fall in the value of sterling has had, at least for now, a positive impact on business, though this may be offset by other issues after the UK eventually leaves the EU. Similarly, retailers in Northern Ireland have seen an increase in sales to shoppers from the Republic, keen to take advantage of the decline in sterling while the border remains open¹⁶.

¹⁰ The collapse of the pound is pummelling EU businesses dependent on exports to the UK, Politico, 2 November 2016: politico.eu/article/where-brexits-struck-first-the-mushroom-farms-of-ireland/

¹¹ IoD UK members survey October 2016.

¹² The collapse of the pound is pummelling EU businesses dependent on exports to the UK, Politico, 2 November 2016: politico.eu/article/where-brexits-struck-first-the-mushroom-farms-of-ireland/

¹³ The collapse of the pound is pummelling EU businesses dependent on exports to the UK, Politico, 2 November 2016: politico.eu/article/where-brexits-struck-first-the-mushroom-farms-of-ireland/; Irish leaders fear Brexit will bring economic disaster, The Guardian, 16 October 2016: theguardian.com/world/2016/oct/16/irish-pm-calls-brexits-summit-to-confront-looming-crisis?CMP=Share_AndroidApp_Tweet

¹⁴ Ireland may suffer the most from Brexit, The Economist, 29 October 2016: economist.com/news/europe/21709354-making-it-one-few-european-countries-wants-be-kind-britain-ireland-may-suffer

¹⁵ Efforts made to resolve border dispute with UK, RTE, 17 November 2016: rte.ie/news/2016/11/17/832423-lough-foyle/; Brexit: The Hidden Nightmares, RTE, 18 November 2016: rte.ie/news/2016/11/18/832617-brexits-the-hidden-nightmares/

¹⁶ The harder the Brexit, the worse for Ireland, The Guardian, 16 October 2016: theguardian.com/world/2016/oct/16/harder-brexits-worse-for-ireland-sterling-fall?CMP=Share_AndroidApp_Tweet

Movement of labour

The UK is one of Ireland's most important trading partners and the political history of the land border makes the relationship between Ireland and UK especially significant. Nevertheless, the rhetoric of "Brexit means Brexit"¹⁷ and claims that there won't be a "hard border"¹⁸ are difficult to reconcile.

When the Irish Free State seceded from the United Kingdom in 1922, both governments decided not to impose a formal hard border between the two countries and an informal agreement to this effect was reached in February 1923. The common travel area (CTA), as it became known, is a free movement area comprising Ireland, the United Kingdom of Great Britain and Northern Ireland, the Isle of Man and the Channel Islands. Based on legally non-binding arrangements, and strengthened and enhanced via the Belfast/Good Friday Agreement, the internal borders of the CTA are today subject to minimal or non-existent border controls and can normally be crossed by British and Irish citizens with minimal identity documents, with certain exceptions. This has facilitated significant business, political and cultural links between Northern Ireland and the wider UK and the Republic of Ireland.

According to the most recent all-Ireland census, taken in 2011, there are 14 million crossings of the border each year, a vital conduit for business, consumers, tourists and daily life. Approximately 30,000 people cross the Northern Ireland-Ireland border every day and 14,800 persons habitually commute between Northern Ireland and the Republic for work or study, with 6,500 travelling to Ireland from Northern Ireland and 8,300 travelling in the other direction¹⁹.

Both the UK and Irish governments have said they do not want a hard border due to mutual economic self-interest, and neither party wants political disputes within or about Northern Ireland to re-emerge. IoD members are equally keen to avoid a hard border because of the disruptions, delays, detours and blockages it would create for their companies and trade.

Yet ensuring the border remains open will be difficult. It is not sufficient to say that there has always been a common travel area²⁰ since the Republic of Ireland became independent from the UK and that the CTA will continue, because that common travel area has worked on the basis of harmony between the United Kingdom and the Republic of Ireland (as well as the governments of the Isle of Man, Jersey and Guernsey) on their approach to the EU and maintaining a common policy framework around movement of people. Now, for the first time, the UK and Ireland are set to be out of sync.

Under current laws, the only way to ensure such an arrangement would be for the UK to continue full membership of the EU single market and customs union (and therefore also continue to accept EU freedom of movement) after Brexit, but the UK continuing EU freedom of movement, in its current form at least, though desirable from a business perspective, appears politically inconceivable. For the UK, assuming it agrees a trade deal with the remaining EU-27 after Brexit, discrimination by treating Irish citizens (or goods etc) preferentially to other EU citizens (or goods etc)²¹ would be illegal under current EU law²². If the UK is to leave the EU single market and customs union, therefore, we will need to seek some form of compromise alteration to these rules.

Currently, the UK's Ireland Act 1949 grants

¹⁷ Government to 'push ahead' with Brexit, BBC News, 31 August 2016: bbc.co.uk/news/uk-politics-37219143

¹⁸ 'No-one wants return to borders of the past', BBC News, 25 July 2016: bbc.co.uk/news/uk-northern-ireland-36885303

¹⁹ Census 2011 Ireland and Northern Ireland, Central Statistics Office and Northern Ireland Statistics and Research Agency, 7 November 2016: cso.ie/en/newsandevents/pressreleases/2014pressreleases/pressreleasecensus2011irelandandnorthernireland/

²⁰ The UK and Ireland have had a common travel area since 1923, long predating EU free movement, and the Ireland Act 1949 grants "non-foreign" status to Irish nationals and gives them permanent settlement as soon as they move to live in the UK.

²¹ Brexit Secretary David Davis has said that Irish citizens are expected to have their special status in the UK protected after the UK leaves the EU (House of Commons Hansard, Article 50, 7 November 2016, Volume 616: hansard.parliament.uk/Commons/2016-11-07/debates/C59A3B55-6FB3-455D-B704-F8B1BF5A5AF5/Article50#contribution-80149F4D-15FE-4559-8ACE-820A304CD07E)

²² Indeed, the EU recently threatened retaliation against Canada and the US as both countries sought to apply different visa rules for different EU nationalities. In the end, both ceased discriminating between EU nationalities so no EU action was taken (EU Considers restricting visa-free travel for Americans, Canadians, Politico, 4 August 2016: politico.eu/article/eu-considers-restricting-visa-free-travel-for-americans-canadians/; Canada prepares to lift Romanian visa rules to smooth way for EU trade deal, CNBC News, 6 July 2016: cbc.ca/news/politics/romania-bulgaria-visas-european-commission-mccallum-july-1.3665356)

“non-foreign” status to Irish nationals and gives them permanent settlement rights as soon as they move to live in the UK. The Aliens Order 1962 reciprocates these provisions for UK nationals in Irish law. As the Republic of Ireland will continue to be an EU member state after Brexit, the validity of continuing this preferential treatment for Irish nationals in the UK (and for UK nationals in Ireland) may have to be confirmed via the consent of the EU.

Similarly, for the Republic of Ireland, because their border with Northern Ireland will become an external border of the EU, the final decision on its erection will be the prerogative of the EU not the Irish government (while if the UK leaves the EU customs union, the final decision on introducing a form of border for customs inspections will, in fact, be a result of WTO rules, not EU rules). Maintaining the CTA will test the drafting skills of the most imaginative civil servants²³.

A hard border would prove particularly problematic for businesses on the island of Ireland (both Northern Ireland and the Republic of Ireland), many of whose employees live on one side of the border but work on the other. Not all of these employees are Irish or UK citizens – one in 10 IoD NI members employ non-UK staff from the rest of the EU, excluding the RoI²⁴. Indeed, 30,000 people currently cross the NI-RoI border every day²⁵. Almost one in 10 (8 per cent) of IoD NI members have staff who work in Northern Ireland but live in the Republic of Ireland (this number could actually be double – when asked, a further 8 per cent did not know if they have staff who live in the RoI) and 96 per cent of these have at least one member of staff living in the RoI but working in NI who is a non-UK or Irish EU citizen²⁶. The numbers for IoD Ireland are notably higher.

Twenty-four per cent of IoD Ireland members responded that they have at least one member of staff who lives in Northern Ireland but works in the Republic of Ireland, and 79 per cent of these have at least one member of staff living in Northern Ireland who is a non-UK or Ireland EU citizen²⁷.

The most recent census, which dates from 2011, recorded 83,000 people from elsewhere in the EU living in Northern Ireland. Of that group, 44 per cent (37,000) were from the Republic of Ireland but the majority, 56 per cent (46,000), were from the rest of the EU²⁸. Consequently, any border or travel arrangements after Brexit will have to account not only for Irish and UK nationals but also EU nationals resident on the island of Ireland.

For example, it is currently unclear whether, for cross-border employees, bringing work home from the office will be counted as an export or liable for tariffs. This may seem a facetious point, but for services jobs and companies with intellectual property considerations (of which Northern Ireland and the Republic of Ireland have very many), or where staff work remotely and/or from home, this could create a considerable burden. The EU maintains protectionist exemptions from free trade agreements for certain sectors, such as cultural services like the audio and visual industries²⁹. This could create significant problems for the 250 cross-border movie, television and radio companies who are currently part of a thriving all-Ireland audio and visual media industry³⁰. Though the numbers seasonally fluctuate, UK government estimates suggest that between 30–40 per cent of the industry’s workforce are non-Irish/UK citizens at any given time³¹.

Furthermore, the Belfast/Good Friday Agreement

²³ This Brexit plan will divide Britain and Ireland once more, Diarmaid Ferriter, The Guardian, 10 October 2016: [theguardian.com/commentisfree/2016/oct/10/brexit-plan-divide-britain-ireland-uk-border?CMP=tw_t_gu](https://www.theguardian.com/commentisfree/2016/oct/10/brexit-plan-divide-britain-ireland-uk-border?CMP=tw_t_gu)

²⁴ IoD UK members survey October 2016.

²⁵ This Brexit plan will divide Britain and Ireland once more, Diarmaid Ferriter, The Guardian, 10 October 2016: [theguardian.com/commentisfree/2016/oct/10/brexit-plan-divide-britain-ireland-uk-border?CMP=tw_t_gu](https://www.theguardian.com/commentisfree/2016/oct/10/brexit-plan-divide-britain-ireland-uk-border?CMP=tw_t_gu)

²⁶ IoD UK members survey October 2016.

²⁷ IoD Ireland members survey October 2016.

²⁸ The EU and Northern Ireland, BBC News, 3 June 2016: [bbc.co.uk/news/uk-northern-ireland-36445164](https://www.bbc.co.uk/news/uk-northern-ireland-36445164)

²⁹ Enforcing regulation 116/2009 on the export of cultural goods: ec.europa.eu/taxation_customs/business/customs-controls/cultural-goods_en; Implementing directive 2014/60/EU on the return of unlawfully removed cultural objects: http://ec.europa.eu/growth/single-market/goods/free-movement-sectors/return-cultural-goods_en

³⁰ Invest NI, Creative Industries, 21 November 2016: [investni.com/invest-in-northern-ireland/sectors-and-opportunities/creative-industries.html](https://www.investni.com/invest-in-northern-ireland/sectors-and-opportunities/creative-industries.html)

³¹ The impacts of migrant workers on UK businesses, the Department for Business, Innovation & Skills, February 2015: [gov.uk/government/uploads/system/uploads/attachment_data/file/406760/bis-15-153-impacts-of-migrant-workers-on-uk-business.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406760/bis-15-153-impacts-of-migrant-workers-on-uk-business.pdf)

(1998) and the St Andrews Agreement (2006) have effected successful institutional arrangements between Northern Ireland and the Republic of Ireland. Products of those agreements comprise six cross-border bodies, including the north-south ministerial council and a number of intra-governmental trade and infrastructure bodies such as: Tourism Ireland, which markets the island as a single entity for tourism purposes; Inter-Trade Ireland, which encourages and promotes cross-border trade; Waterways Ireland, which manages inland waterways including waterways which criss-cross the border; and SEUPB (the Special EU Programmes Body), which manages cross-border implementation and spending of EU peace funds. While the existence of these bodies should not be affected by Brexit (with the possible exception of SEUPB), their existence highlights the unique complexity of free movement between the UK and Ireland.

Without Irish/EU passports, professional athletes from Northern Ireland (such as those selected to represent the Irish national team³²) may also require work visas to travel to the Republic for sporting events. Similarly, many companies (particularly retailers) are constituted on an all-island basis, so while staff based in Northern Ireland may be part of a company division which operates throughout the whole island of Ireland, Northern Ireland staff may in future require visas to do work in the Republic or vice versa. Employers would consequently face additional delays and visa costs. There are also a large number of multinational FDI companies operating in the UK or Ireland who have a mobile workforce that covers both the UK and Ireland jointly. As a result of Brexit, these companies may be required to organise work permits and visas for their employees who work on both sides of the border and so would face additional time and financial costs as a result. Alternatively, they may decide to relocate.

A hard border would have implications for employees' and directors' payments and expenses for travel and work across the border. A loss of UK membership of the Single Euro Payments Area could hinder payments for goods and

services, including payroll payments, that cross the border. Negative tax consequences for both employers and employees should largely be mitigated by the provisions in the 1976 Ireland-UK double taxation convention, but it may be opportune for the revenue authorities of both jurisdictions to re-examine these arrangements to ensure minimum disruption.

Access to workers is a considerable concern for IoD NI members. Ten per cent of IoD NI members think Brexit will have a very negative effect on their access to cross-border (UK/Ireland) workers. A quarter (22 per cent) think the effect will be somewhat negative, while 58 per cent believe the impact will be neither positive nor negative. Access to EU workers (excluding UK/Ireland) is an equally considerable concern. One-fifth (19 per cent) of IoD NI members think Brexit will have a very negative effect on their access to EU workers (excluding UK/Ireland). A third (33 per cent) think the effect will be somewhat negative, while 41 per cent believe the impact will be neither positive nor negative. Just two per cent think the effect will be somewhat positive, while less than one per cent think it will be very positive³³.

The IoD believes it is in the best interest of the Republic of Ireland and the UK governments to endeavour to preserve this unique relationship for trading purposes and, more importantly, to

When asked which of the following arrangements would best suit their organisation, by far the most desirable proposition for our members was a renewal of the common travel area (CTA) for UK and Irish citizens that also includes EU citizens resident in the UK/Ireland.

IoD UK members said

A renewal of the CTA for UK and Irish citizens that excludes citizens from other EU countries who work/live in the UK or Ireland	22%
A renewal of the CTA for UK and Irish citizens that includes EU citizens resident in the UK/Ireland	55%
Some form of CTA for the island of Ireland only (excluding Great Britain)	5%
A system of automatic work visas for UK and Irish citizens	6%
A border with customs and visa checks for all (no special treatment for the UK/Irish border)	5%
None of the above	7%

³² All sports in Ireland, with the sole exception of Association Football, are organised on an all-island basis and have a single unitary national representative team.

³³ IoD UK members survey October 2016.

accommodate the continued cross-border relationship between the peoples of Northern Ireland and the Republic of Ireland into the future for the purposes of political and economic stability on the island of Ireland.

EU subsidies and investment

The other big threat to the Northern Ireland economy is the potential loss of EU subsidies, particularly in the farming and fishing sectors but also in support investments. The largest industry groups in Northern Ireland are agriculture, forestry and fishing, accounting for over one-quarter (25.3 per cent) of all VAT and/or PAYE registered businesses³⁴.

The vast majority of EU subsidies to Northern Ireland come in the form of common agricultural policy (CAP) payments. Farming is thus one of many industries facing funding uncertainty post-Brexit. Food, beverages and agricultural products make up 35 per cent of Northern Ireland's exports to the EU, while by comparison the sector makes up only 10 per cent for the rest of the UK. Those products could face high tariffs if a free trade deal cannot be reached between the UK and the EU. A UK government review estimated in 2013 that 60,000 new workers would be needed in the agricultural industry over the next 10 years³⁵. Yet some farm businesses are already struggling to fill permanent position vacancies, many of which are well paid and come with substantial benefits. With the potential fallout stemming from post-Brexit policies on immigration, close attention needs to be paid to the agricultural labour force in order to prevent a further crisis. Migrant labourers from the EU make up more than 30 per cent of all workers in the manufacture of food products in NI, including jobs such as processing cheese and meat,

making baked goods and animal slaughter³⁶. At a crucial point for the industry, where a potential labour shortage looms large³⁷, without access to sufficient labour, many businesses could be forced to move away from labour-intensive farming, such as horticulture, dairy, pigs and poultry – or move out of farming altogether. With the average age of the farm workforce older than 55 and with fewer people crossing the gap from agricultural education to the farm workforce, ensuring a continued labour supply for the industry is crucial to the industry's future and, by implication, to the security of supply and affordability of foodstuffs and other agricultural products for the rest of the UK market³⁸.

The EU also invested £133m in structural funds in the Northern Irish economy in 2015 with a further £50m of special peace and cross-border funds. £307m was granted to the NI Department of Enterprise, Trade and Investment (DETI) for direct business subsidies last year under the programme, which has since been renamed the Investment for Growth and Jobs scheme. There are also science, education and research funds of at least £10m a year. Northern Ireland is a net beneficiary of EU funding and has received a total of £3.5bn in EU funding over the last six years, although the actual amount of EU cash spent in NI may actually be higher because there are other EU funds which, while not specifically earmarked for Northern Ireland, are available for use there. Another roughly £3.5bn was allocated for the current EU funding round (2014-2020) and many businesses had been planning on the basis of these expected funds³⁹. To give a scale of how big £3.5bn is, the annual budget for the whole Northern Irish health service in 2016/17 is roughly £4.9bn⁴⁰.

³⁴ Northern Ireland, Department for the Economy, Inter-Departmental Business Register (IDBR), 27 January 2016: economy-ni.gov.uk/articles/inter-departmental-business-register-idbr

³⁵ Gov.UK, Future of Farming Review Report, July 2013: gov.uk/government/uploads/system/uploads/attachment_data/file/211175/pb13982-future-farming-review-20130709.pdf

³⁶ A Brave New World: how reduced migration could affect earnings, employment and the labour market, Resolution Foundation, 16 August 2016: resolutionfoundation.org/publications/a-brave-new-world-how-reduced-migration-could-affect-earnings-employment-and-the-labour-market/

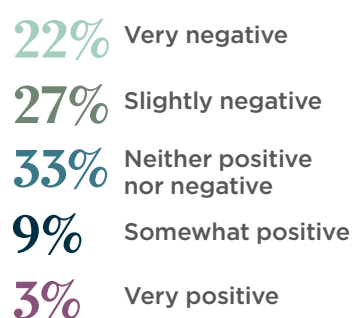
³⁷ UK faces land-based skills shortages, FarmingUK, 7 April 2014: farminguk.com/News/UK-faces-land-based-skills-shortages-says-report_29768.html

³⁸ Gov.UK, Future of Farming Review Report, July 2013: gov.uk/government/uploads/system/uploads/attachment_data/file/211175/pb13982-future-farming-review-20130709.pdf

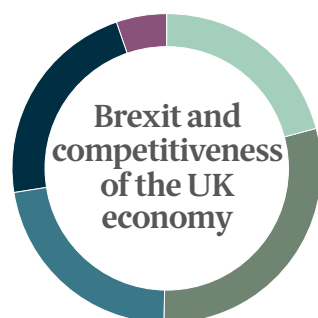
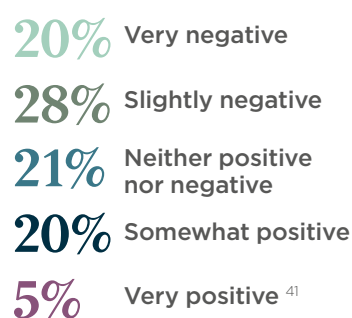
³⁹ The EU and Northern Ireland, BBC News, 3 June 2016: bbc.co.uk/news/uk-northern-ireland-36445164

⁴⁰ Is Northern Ireland a net contributor to the EU?, FactCheckNI, 15 June 2016: factcheckni.org/facts/is-northern-ireland-a-net-contributor-to-the-eu/

IoD NI members' thoughts on the effect of Brexit on investment in Northern Ireland*



IoD UK members' thoughts on the effect of Brexit on the competitiveness of the UK economy



*All charts excluding 'don't knows'

Services

The UK's comparative advantage is largely in regulated services, which require an agreed regulatory framework in order to be provided across borders. For example, in banking, the ability of banks and other intermediaries based in the UK to operate across the EU is based not only on a single set of rules but also on elements of supranational supervision⁴². Services comprise roughly 80 per cent of UK employment, almost half of UK exports, and the EU is the UK's largest service export destination⁴³. A trade agreement alone would not include or account for the UK's comparative advantage in services and so would result in service companies' operations outside the UK being constrained.

Such a loss of access to the European market in services would be detrimental for many businesses and employees and result in a considerable adjustment for the UK economy⁴⁴.

There is a considerable difference between access to and membership of the single market. "Access to" implies simply being part of a free trade area. However, a single market and a free trade area are not the same thing. A single market enables companies to trade services across borders in a way that they cannot do in a simple free trade area. This is one of the reasons why the EU lists freedom of movement of labour as one of its core freedoms.

Free movement of labour is fundamental to a functioning EU single market because many services need employees to be able to cross national borders in order to provide that service in other countries. It is, for example, difficult to sell care, catering, cleaning, consultancy or construction services in other countries if the carers, caterers, cleaners, consultants or civil engineers providing those services need to apply for visas to cross state borders and work in other countries. Yet, apart from the EU single market, there are no comprehensive free trade agreements in services between rich countries anywhere in the world⁴⁵. Thanks to its freedom of movement of labour, the EU single market is the only supranational market where services can be traded so comprehensively. UK businesses have been perhaps the most successful of any country in Europe at making the most of the opportunities of and benefiting from the freedom the single market grants to trade in services overseas. Consequently, while there is always a degree of guesswork in economic forecasts, assuming the UK will not continue EU freedom of movement, some estimates have predicted that the UK's service sector could see its exports drop by up to 60 per

⁴¹ IoD UK members survey October 2016.

⁴² Europe after Brexit: A proposal for a continental partnership, Jean Pisani-Ferry, Norbert Röttgen, André Sapir, Paul Tucker & Guntram B. Wolff, Bruegel, 29 August 2016: bruegel.org/2016/08/europe-after-brexit-a-proposal-for-a-continental-partnership/

⁴³ Brexit options: budget contributions pale against wider trade and economic impacts, Carl Emmerson, Paul Johnson and Ian Mitchell, Institute for Fiscal Studies (IFS), 10 August 2016: ifs.org.uk/publications/8413

⁴⁴ Jean-Claude Juncker, The State of the Union 2016: Towards a Better Europe - A Europe that Protects, Empowers and Defends, 14 September 2016: europa.eu/rapid/press-release_IP-16-3042_en.htm

⁴⁵ Services, Trade and Free Movement, Angus Armstrong, National Institute of Economic and Social Research (NIESR), 6 June 2016: niesr.ac.uk/blog/services-trade-and-free-movement#.WBiuetKLS70

cent after leaving the European single market, even if there is a free trade agreement with the EU already in place by then⁴⁶. Jettisoning the benefits we get from free movement would not remedy the grievances that led to the Brexit vote. The UK should instead seek rational reforms to free movement that do not compromise our continued economic prosperity. Freedom of movement is strongly supported by the overwhelming majority of IoD members and the IoD is keen for the government to ensure this country remains open for business to secure the future prosperity of the UK services sector after Brexit.

The status of non-Irish/UK citizens

The Belfast/Good Friday Agreement grants all citizens born in Northern Ireland the right to an Irish (and therefore EU) passport. This may alleviate some of the issues around Northern Irish-born dual UK-Irish citizens travelling to and working in the Republic of Ireland. However, there remain questions about the status of EU immigrants already resident and working in the UK – will they be allowed to stay? Can they keep the same rights/benefits as at present? What about their family members? How can this be delivered by the UK government? What about EU immigrants living in the Republic but working in Northern Ireland? Approximately 500,000 Irish people live and work in the UK, so this is a significant issue for UK employers. A clear, public commitment to protect the status of EU immigrants was made by the official Vote Leave campaign during the EU referendum campaign⁴⁷ and the IoD UK are anxious for the UK government to swiftly make the same commitment⁴⁸.

Customs and tariffs

Currently, between Ireland and the UK, and

between both and the rest of the EU, trade law is an exclusive EU competence as part of the common commercial policy set forth in articles 206 and 207 of the Treaty on the Functioning of the European Union. Article 207 (3) says that private deals between one EU country and a “third country” are not permissible in the field of tariffs and customs. Given the close relationship between Ireland and the UK, consideration should be given to Ireland and the UK negotiating their own trade agreement. Unfortunately, because trade is exclusively a competence of the EU, such a bilateral arrangement would not be possible without the consent of Ireland’s EU partners.

Consequently, unless the UK decides to stay in the EU customs union or agrees a preferential trade agreement with the EU, there will have to be tariffs between the Republic and the UK. The British government has suggested a willingness to waive tariffs on Irish goods crossing the Northern Ireland border⁴⁹, however, this may not solve all the potential difficulties⁵⁰. For an EU member state not to impose tariffs on exports from the UK would leave it in breach of its WTO obligations, and unless the UK has zero tariffs on everything from everywhere, WTO rules would similarly oblige it to impose tariffs on imports from the EU⁵¹. Unless a compromise can be reached (and thankfully there are admittedly imperfect examples to cite as precedent, such as the German exclave of Büsingen am Hochrhein or the Italian exclave of Campione d’Italia⁵²), a customs barriers would almost certainly have to be created within these islands in one form or another.

If the EU and the UK fail to negotiate a customs regime and the UK does not join the EEA, imports into Ireland from the UK will be subject to EU customs duty, payable by the Irish importer, thereby increasing the cost and administrative burden. Irish

⁴⁶ Brexit risks 60 per cent drop in service sector exports, Financial Times, 1 November 2016: ft.com/content/bfe51444-9f70-11e6-86d5-4e36b35c3550; Assessing the impact of trade agreements on trade, NIESR, Monique Ebell, 2 November 2016: <http://www.niesr.ac.uk/publications/assessing-impact-trade-agreements-trade#WDLVBNKLS70>

⁴⁷ The Conservative government and the British National Party are the only political parties who have yet to say that these EU nationals can remain after Brexit.

⁴⁸ New inquiry to examine how government can protect rights of EU citizens in UK, British Future, 16 August 2016: britishfuture.org/articles/inquiry-how-government-can-protect-rights-of-eu-citizens-in-uk/

⁴⁹ David Davis gives evidence on leaving the EU, House of Commons Foreign Affairs Select Committee, 6 September 2016: parliament.uk/business/committees/committees-a-z/commons-select/foreign-affairs-committee/news-parliament-2015/eu-result-davis-evidence-16-17/

⁵⁰ The EU and the border, Kevin H O’Rourke, The Irish Economy, 24 September 2016: irisheconomy.ie/index.php/2016/09/24/the-eu-and-the-border/

⁵¹ A further concern is that while the British government is attempting to claim automatic membership of the WTO by virtue of the UK’s current membership that comes via the EU, some trade experts believe that the UK will have to reapply for WTO membership in its own right from scratch. While WTO membership will require tariffs to be imposed, non-membership of the WTO will oblige even higher tariffs to be imposed.

⁵² Europe offers models for Northern Ireland border, Financial Times, 25 July 2016: ft.com/content/56d8946e-527f-11e6-9664-e0bd13c3bef

purchasers may thus seek to source other cheaper non-UK suppliers based elsewhere in the EU. Equally, exports of Irish goods would become more expensive for UK customers, including businesses.

Employment

Among the most traditional motivations for foreign direct investment is to jump over trade barriers that exist between countries. The higher the new barriers to trade between the UK and the Republic of Ireland, the more companies based in the Republic which service the UK market will have reason to relocate at least part of their operations to the UK. Such barrier-jumping would lead to job losses in the Republic. However, jumping trade barriers works both ways. While the Republic of Ireland stands to lose some jobs, it could gain relatively more jobs from the UK as a result of Brexit. Of the 68,085 businesses operating in Northern Ireland as of March 2015, 2.4 per cent were non-Northern Ireland owned. However, these businesses, which may be the most willing to relocate, accounted for almost one-quarter (24.4 per cent) of all Northern Ireland employees⁵³.

The Economist magazine has estimated that the Republic of Ireland may gain as many as 20,000 jobs from the UK financial industry if the UK-based financial services sector does not retain EU passporting rights⁵⁴. The UK has the second highest stock of foreign direct investment in the world⁵⁵, and much of that investment is EU focused. IDA Ireland (Industrial Development Agency Ireland), the agency responsible for the attraction and development of foreign direct investment to the Republic of Ireland, has a very good track record of attracting foreign companies. There are considerable opportunities for the

Republic to lure some of these relocating jobs from the UK and, because of proximity, particularly those jobs currently located in Northern Ireland.

Looking at new FDI projects in Northern Ireland over the four-year period from 2011/12 to 2015/16, for example, there were 196 successful FDI projects into NI that created a total of 13,249 new jobs and safeguarded 2,015 pre-existing jobs. Of these, 83 of the FDI projects were EU funded which created 2,650 new jobs and safeguarded a further 477 jobs⁵⁶. These figures put into context the significant impact for Northern Ireland of these types of projects moving to the Republic.

Migrant labourers from the EU comprise 10.6 per cent of the UK labour force but the proportion in Northern Ireland is particularly significant. Forty per cent of IoD NI members employ individuals from another EU country excluding Ireland and some sectors are particularly reliant on EU workers. For example, EU migrants make up more than 30 per cent of all workers in the food and drinks sector in NI, the country's largest sector by employment. One-fifth of those working in the accommodation sector and other tourist industries, which accounts for 5 per cent of Northern Ireland's GDP, come from the EU⁵⁷. However, the status of EU migrants already resident in the UK after the UK leaves the EU has yet to be confirmed by the UK government. The IoD has repeatedly called for government to immediately guarantee that the three million EU citizens living in the UK will be able to stay after Brexit. A clear, public commitment to protect the status of EU immigrants was made by the official Vote Leave campaign, and employers are anxious for government ministers to swiftly make the same commitment⁵⁸.

⁵² Europe offers models for Northern Ireland border, *Financial Times*, 25 July 2016: ft.com/content/56d8946e-527f-11e6-9664-e0bdc13c3bef

⁵³ Northern Ireland, Department for the Economy, Inter-Departmental Business Register (IDBR), 27 January 2016: economy-ni.gov.uk/articles/inter-departmental-business-register-idbr

⁵⁴ Ireland may suffer the most from Brexit, *The Economist*, 29 October 2016: economist.com/news/europe/21709354-making-it-one-few-european-countries-wants-be-kind-britain-ireland-may-suffer

⁵⁵ Seven bad things (and one good) that will hit Ireland after Brexit, *Irish Independent*, 25 September 2016: independent.ie/opinion/columnists/dan-obrien/seven-bad-things-and-one-good-that-will-hit-ireland-after-brexit-35076372.html

⁵⁶ Foreign direct investment (FDI) projects by UK region (tax year 2011 to 2012 tax year to tax year 2015 to 2016), Department for International Trade (DIT), 30 August 2016: gov.uk/government/publications/foreign-direct-investment-projects-by-ukti-regions-201011-to-201415/foreign-direct-investment-projects-by-uk-region-201011-to-201415

⁵⁷ Invest NI, Tourism, 21 November 2016: investni.com/invest-in-northern-ireland/sectors-and-opportunities/tourism.html; A Brave New World: how reduced migration could affect earnings, employment and the labour market, Resolution Foundation, 16 August 2016: <http://www.resolutionfoundation.org/publications/a-brave-new-world-how-reduced-migration-could-affect-earnings-employment-and-the-labour-market/>

⁵⁸ Post-Brexit Immigration Policy: A system that supports economic growth, works for businesses and addresses public concerns, Seamus Nevin, Institute of Directors, October 2016: [google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKewiesJPFggHQAhUJMAKHVquCvMQFggbMAA&url=https%3A%2F%2Fwww.iod.com%2FPortals%2F0%2FPDFs%2FCampaigns%2520and%2520Reports%2FEurope%2520and%2520trade%2FImmigration-Report-2016.pdf&usq=AFQjCNH9eEXvRYEbVCTihyDRU4kBsBDeNw](https://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKewiesJPFggHQAhUJMAKHVquCvMQFggbMAA&url=https%3A%2F%2Fwww.iod.com%2FPortals%2F0%2FPDFs%2FCampaigns%2520and%2520Reports%2FEurope%2520and%2520trade%2FImmigration-Report-2016.pdf&usq=AFQjCNH9eEXvRYEbVCTihyDRU4kBsBDeNw)

Conclusion

Northern Ireland will be the litmus test for Brexit. The economies, politics and peoples of the UK and Ireland are intimately interwoven. Consequently, if the UK and Ireland can manage to overcome the many intricate and complicated difficulties Northern Ireland presents for Brexit, then the UK government will have gone a long way to ensuring the best possible outcome of Brexit for the entire United Kingdom.

It is incumbent upon all parties in the forthcoming Brexit negotiations to recognise the unique political and economic case of UK-Ireland relations and the implications of Brexit for both UK and Irish businesses. Irish, UK and EU leaders must work to ensure an outcome whereby both countries can continue to benefit from an unhindered relationship with each other. In the period before the invocation of article 50, and throughout the negotiation process, it is imperative that all stakeholders galvanise a common effort across the polities of these two islands to achieve the best possible Brexit for both Ireland and the UK. The mutual interest in achieving a positive outcome is obvious.

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