

# Brexit: The impact on the British & Irish Economic Relationship

Paul Caplis, Commerical Director with the British Irish Chamber of Commerce considers the impact of a possible British exit from the EU and what it would mean for the British & Irish economic relationship.



Paul Caplis joined the British Irish Chamber in June 2015 from the UK Trade & Investment at the British Embassy, Dublin. Paul represents the interests of all those operating the the British & Irish trading space including working closely with other business and Professional service associations to facilitate connections and networking opportunities for customers and clients looking to access trade facilitation between the two islands.

The forthcoming referendum on Britain's future within the European Union has become a very important issue for those doing business in Ireland, in the UK and indeed, across the European Union.

And this is for one simple reason: the Irish and UK economies have always had a very close relationship and so the possibility of Britain leaving the EU would have consequences for Irish trade.

## How likely is a British exit, or a 'Brexit'?

We now know that the date of 23rd June has been announced by the Prime Minister as the date to hold the referendum and recent opinion polls suggest that close to 50% would vote to remain in the EU with a very close 50% against. There will certainly be active polls taken between now and the 23rd June although a recent poll shows the result of a referendum taking place after a renegotiation of Britain's relationship with Europe provides for positive recommendation from Prime Minister Cameron.

Following his statement on the steps of Downing Street on Saturday, 20th February, an early poll shows the 'leave campaign' with a (very) slight lead with just over 50% favouring an exit from the EU. Interestingly, the Mayor of London, Boris Johnson has announced his intention to back the leave campaign, with the prospect of whether or not Britain will leave the EU as being too close to call at the time of writing.

## What would the impact of a 'Brexit' be?

Although the overall prospect of a British exit from the European Union seems low, it is worth exploring what the consequences would be if Britain voted to leave the EU. Such consequences depend on the new relationship between the UK and the EU after a potential exit.

In March 2012, both the Taoiseach, Enda Kenny and the Prime Minister, David Cameron announced a "Joint Statement" which focused on the economic and trading relationship between both Ireland and the UK. In particular, it focused on the strength of the keynote sectors, Food & Drink, ICT and Energy and also where 'further co-operation and collaboration potential' could be exploited leading to enhanced Trade & Investment opportunities within both countries. The findings of a "Joint Economic Study" report by PA Consulting and Cambridge Econometrics on the value of the economic relationship between Ireland and the UK was the response to a commitment set out in that Joint Statement between the Taoiseach and the Prime Minister.

Such a report might lead one to conclude that, in the event of a withdrawal of the UK from the EU, the trading relationship between the UK and Ireland would continue to prosper. Although as part of any debate, the question should be asked as to what bearing might this have on issues such as free trade and the movement of goods & services, etc.

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More widely, some economic observers from Britain conclude that it is likely that the UK would form a relationship with the EU similar to the relationship already in place between other countries outside the EU, including Switzerland, Norway, Iceland and Liechtenstein. These countries have formed a European Free Trade Association ('EFTA') for the promotion of free trade and economic integration.

If the UK set up a similar arrangement, the implications for the Irish economy would be small. And, as the UK is not a member of the Eurozone, the currency situation would remain unchanged. What must be explored and debated further however, is the question of what EU rules and/or regulations would apply to a country that has opted to leave the EU? And how might this impact on those wishing to trade freely across each of the jurisdictions within both islands?

### **Links between the two economies are still very strong**

If the new relationship between the UK and the EU changed dramatically and trade barriers and tariffs were erected, then the consequences for the Irish economy could be significant. The dependence of the Irish economy on the UK has fallen in recent decades, but it remains an important trading partner. By a geographical fact, the UK has been and is likely to always be, Ireland's largest trading partner.

When Ireland and the UK joined the EEC in 1973, over 50% of Irish exports went to the UK. That figure has dropped to just over 16% today. Although over 40% of Irish exports go to the remainder of the EU, the UK remains our single most important export market in Europe. Some 20% of Irish exports now go to the US.

The true importance of the UK economy as a trading partner is understated by these figures. A significant portion of the growth in exports to the US and mainland Europe reflect the operations of the multinational sector. In contrast, a much higher proportion of exports to the UK are from indigenous Irish industries where the real economic value added is considerably higher. Perhaps a better indicator of the

economic relationship between the two economies is the fact that more than one-third of Irish imports come from the UK.

The key areas of note when looking into the potential implications of an exit by the UK from the EU can be considered from sources such as the **ERSI report** (published 5th November 2015) which places emphasis on Trade, Foreign Direct Investment, Energy and Migration. It is worth taking a closer look at each of these which are of critical importance to the two-way trading relationship between the UK and Ireland.

### **\*Trade**

- Estimates from the literature suggest that a 'Brexit' could reduce bilateral trade flows between Ireland and the UK by 20 per cent or more
- While the 20 per cent estimate is an average figure, the impact would differ significantly across sectors, products and firm types as merchandise trade in particular is heavily concentrated in some sectors and products and indigenous firms are more dependent on the UK as an export market
- The UK is more important as a source of imports to Ireland than it is as a destination for Irish exports, and any barriers to trade would increase prices of UK imports to Ireland

In relation to trade between Ireland and Northern the expected impact of 'Brexit' is likely to be more significant for Northern Irish exporters to Ireland

### **\*Foreign Direct Investment**

- The UK outside the EU would be less attractive to FDI because of its reduced access to the EU Single Market. Less FDI is likely to result in slower economic growth in the UK, which would impact negatively on Ireland's economic growth
- While it might be thought that a reduction of FDI into the UK would result in an economic boost for Ireland through additional FDI projects relocating from the UK, the analysis in the ERSI report shows that the expected additional attractiveness of Ireland to new FDI projects is likely to be small

### **\*Energy**

- An all-island electricity market has existed since 2007, and interconnection between Ireland and Northern Ireland is particularly important for Northern Ireland, which relies on electricity imports from Ireland to make up for insufficient local electricity generation capacity
- If the electricity market in Britain remains independent of the rest of the EU, interconnection with Britain only would leave Ireland vulnerable to any problems in the British market. Under these circumstances enhanced interconnection between Ireland and the rest of the EU could provide a useful but costly diversification, reducing risk for Irish consumers

### **\*Migration**

- A UK exit from the EU opens up the possibility of restrictions on the free movement of people between Ireland and the UK for the purposes of work. As the UK remains an important destination for Irish emigrants especially at times of high unemployment, such restrictions could have implications for the Irish labour market
- More broadly, the imposition of passport controls at the border with Northern Ireland would be at best inconvenient and at worst a worryingly regressive step in terms of facilitating cooperation between both parts of the island

**\* Source: ERSI Report – published 5th November 2015**