Copenhagen Economics study on Impacts of Brexit on Trade and the Economy

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Heather Humphreys, T.D., Minister for Business Enterprise and Innovation, has published an independent study which Copenhagen Economics were commissioned to undertake on behalf of her Department and the Government examining the impact of Brexit on Ireland's trade and economy. The study examines the implications and quantifies the impact of possible new barriers to trade which might emerge as a result of Brexit. It considers a range of possible Brexit scenarios – an EEA-type scenario, a customs union-type scenario, and FTA scenario and a worst case, WTO scenario.

Minister Humphreys said "The Government is already taking steps to ensure that the impact of Brexit is minimised. The study is there to guide us and help us to prevent the worst from happening. We commissioned it so that we can quantify the potential impacts of different Brexit scenarios, and get hard facts on what sectors will be most impacted by those different scenarios. The information will help to inform our negotiating position, together with our ongoing domestic response to Brexit, which has been evolving since the UK vote and will continue to evolve in the times ahead.

"Without a doubt, the study underlines the importance of a satisfactory transition period and exit deal. The Government is utterly determined to get the best possible deal for the Irish people, negotiating as part of the EU 27, and in full support of chief negotiator, Michel Barnier."

Minister Humphreys continued "It is important to remember that the analysis is undertaken on the basis of a 'no policy response'. In reality, there has already been extensive planning and action across Government to mitigate risks and maximise opportunities associated with Brexit. It is also important to be clear that our economy is growing with a resilient enterprise sector. The study does not predict a contraction in our economy but rather a lower growth rate than would be otherwise expected over the long term."

The study identifies the best and worst case scenarios where the impact could be minimised. An EEA scenario would be least damaging gradually reducing GDP growth by 2.8% by 2030. A WTO scenario would have the most impact gradually reducing GDP growth by 7% by 2030.

Five sectors account for 90% of the impact - Agri-food, Pharma-chemicals, Electrical Machinery, Wholesale & Retail, and Air Transport. The rise of non-tariff barriers – specifically due to regulatory divergence - is the main factor driving the results.

Minister Humphreys added "We are acutely aware that certain sectors are particularly exposed to Brexit. That is why, among other supports, we will be rolling out a new €300m Brexit Loan Scheme in late March, which will be open to all sectors, with at least 40% of low interest loans being made available to the agri-food sector. We are also developing a Longer-Term Loan Scheme, and announced a €25m Brexit Response Loan Scheme for the agri-food sector in Budget 2018."

Ireland and the Impacts of Brexit

Strategic Implications for Ireland Arising from Changing EU-UK Trading Relations

Using a computable general equilibrium (CGE) model, this study quantifies the impact of possible new barriers to trade (exports and imports) in goods and services which might emerge as a result of Brexit. The study provides analysis of the likely impact of Brexit on key sectors. In addition, the study decomposes the results to better understand the factors driving the economic and trade impacts (e.g. a range of metrics on tariffs and non-tariff barriers are provided).

The study models for a range of short and long term impacts of Brexit on key economic metrics, including GDP, national income, exports and imports.

In the model simulations, the short-term impact of the two scenarios (Soft and Hard) are considered with a “year 2020” as the notional baseline year. The main focus of the study, however, is on the long term to show the impact of four Brexit scenarios on GDP, national income, exports and imports in a putative “year 2030”. All results are compared against a 2030 baseline which would have pertained had Brexit not occurred (see attached chart).

The **WTO** scenario would have the largest impact on the Irish economy: while the economy is still projected to grow even under such a scenario, by 2030 GDP is expected to be 7 per cent lower than would otherwise have been the case. Under an **EEA**-like scenario GDP in 2030 would be 2.8 per cent lower than if Brexit had not happened. Under a **customs union**, GDP is estimated to be 4.3 per cent lower in 2030 than would otherwise be the case. The **FTA** scenario used in the model reflects the average of all existing EU FTAs and would also result in GDP being 4.3 per cent below baseline in 2030. The more comprehensive an FTA that might be agreed between the EU and UK, the lower the loss in GDP.

The study analyses the impact of these scenarios across 24 sectors of the Irish economy. The impact of Brexit in five sectors accounts for approximately 90 per cent of the total economic impact. This is a result of a combination of (i) the scale of the Brexit impact in the sector and/or (ii) the scale of Irish-UK trade in the sector. The five sectors are agri-food, pharma-chemicals, electrical machinery, wholesale and retail, air transport.

Looking at the data across all of the sectors, the rise of non-tariff barriers – specifically the risk of regulatory divergence - is the main explanatory factor driving the results.

Source: www.dbei.gov.ie