

***In this issue:***

- ***Chaos in the House of Commons, with Theresa May's influence threatened***
- ***How will decisions around the border affect Irish trade***
- ***Irish Stock Exchange weighing up options for a buy-out***

**DKM Commentary:**

It's been a highly eventful fortnight with respect to Brexit developments, predominantly owing to a number of upheavals in British politics. Prime Minister, Theresa May, lost two members of her cabinet to two separate scandals, while the sixth round of negotiations took place in the EU. This week, the EU Withdrawal Bill was brought to committee stage in the House of Commons, where it will stay for a minimum of 64 hours of debate. With rumours of a no-confidence agreement gaining momentum in the backbenches of Theresa May's government, the Prime Minister faces a tough time reassuring Parliament, as well as those in the EU, that any deal she puts forward will be seen through to fruition, given the fact that her position seems increasingly precarious.

In the EU, Barnier is demanding a clear picture of where the UK stands on its financial obligations to the union, but there is little confidence that those figures will remain unchanged should a new leader take over in Downing Street.

At home, the Taoiseach has expressed his desire to see a 'bespoke' solution to the issue of the North-South border, with the EU having discussed keeping Northern Ireland in the customs union and single market. He has a chance to display skills of diplomacy, however, on such a contentious issue, it is unclear how receptive the relevant parties will be to the range of potential, 'bespoke' solutions.



# Political Developments

## United Kingdom

### Withdrawal bill makes its way to the House of Commons

On Tuesday, the EU withdrawal bill entered committee stage, and the 64 hour long debate on its contents began. Every line of the bill in its current form will be discussed, and certain amendments (of which there are over 400) will be voted on. On Tuesday evening, the government [held ground](#) after a Labour amendment to set the official exit day after the completion of a transitional period was struck down by 316 to 296.

On Monday evening, Brexit Secretary, David Davis, [announced](#) to the House of Commons that the final Brexit bill will require an act of parliament, i.e. a vote, to finalise its implementation. Mr Davis qualified the announcement to his colleagues by explaining that it could not result in a reversal of Brexit, and a 'no' vote from parliament would impose WTO trade procedures, as opposed to halting Brexit itself.

### Theresa May's leadership under threat

British Prime Minister Theresa May has been working to instil confidence across members of the Tory party in her abilities as leader, a constant exercise since she called the snap election last summer. While she has silenced a number of [challenges](#), she received what appeared to be a more serious threat over the weekend when it was [reported](#) by The Sunday Times that 40 Tory MPs 'agreed to sign' a letter of no-confidence in Mrs May. If accurate, only eight more MPs would be needed for a viable leadership challenge. In response to the political uncertainty surrounding the news, the pound [dropped by 1 per cent](#) against the dollar on Monday morning. Following this, a [letter](#) from Secretaries Gove and Johnson to Mrs May was leaked, and outlined their dissatisfaction with the Prime Minister's approach to the negotiations. Specifically, the two Brexiteers suggested that the government's work on Brexit had 'insufficient energy' and that the post-Brexit transition period cannot last beyond June 2021. Some are interpreting this as a jibe at Chancellor Philip Hammond who has been a proponent of a soft Brexit with a longer transition period.

### Labour spokesperson challenges May

A weakening of Mrs May's authority gives rise to uncertainty in the EU, where negotiators do not know if a deal agreed with the Prime Minister will be dependable, should a new leader replace Mrs May in the coming months. Labour spokesperson on Brexit, Keir Starmer, has [called on](#) Theresa May to agree a common approach to the transitional deal in a letter recently. He said; 'Over recent weeks, it has become increasingly clear that you alone do not have the authority to deliver a transitional deal with Europe and to take the necessary steps to protect jobs and the economy'. Phase Two of negotiations

may be delayed by the EU until greater political stability is achieved in the UK.

## Ireland

### Government stand in strong opposition to hard border

Minister for Foreign Affairs, Simon Coveney, [reaffirmed](#) that the government will strongly oppose any discussion of a hard border between the North and South and has [called for](#) a five year transition period. Speaking at the Fine Gael Party Conference last weekend, the Minister said that the government's opposition to a hard border will be 'consistent, firm and stubborn' and that an all-Ireland economy will be needed to facilitate the Good Friday Agreement. Mr Coveney's comments follow those of the Taoiseach who [highlighted](#) the need for Northern Ireland to remain in the customs union and single market when speaking at the British-Irish Council last Friday. Mr Varadkar called for a 'bespoke' solution to the border issue, citing the Isle of Man as an example that individually tailored solutions can be achieved.

### Taoiseach works to find balance between optimism and realism

In light of the political turmoil in the UK over the last number of days, the Taoiseach has tempered his tone regarding the outlook for negotiations as we approach the next EU summit, now four weeks away. [Speaking](#) in the Dáil last week, the Fine Gael leader spoke positively on the likelihood of negotiations moving to Phase Two in December, after it was decided in the EU that 'sufficient progress' had not been met for such an advancement last month. He did acknowledge that 'that may change' however, and this week was cautious to appear blindly optimistic in the face of a weakened authority in Theresa May. The Taoiseach, while [speaking](#) at the Remembrance Sunday Ceremony this week, said he was not afraid of a no-deal Brexit and that there is a possibility negotiations will break down, and the UK will leave without securing a new trade deal.

## European Union

### EU seeks 'vital clarification' on the divorce bill

Chief Brexit negotiator for the EU, Michel Barnier, has [asked](#) the UK for 'vital clarification' on the divorce bill and financial commitments Mrs May's government will honour, by the end of next week. Mr Barnier's request for information comes at the end of the sixth round of negotiations, still in phase one, from which very modest progress was evident. The EU is looking for an 'objective interpretation' of the UK Prime Minister's commitments, made in Florence last September. In the Brexit themed speech she delivered, Mrs May assured her EU counterparts that no country would lose out financially as a result of the UK's decision to leave, and that all pre-established budgetary obligations would be met in full. Beyond this, little is known regarding where the UK stands on its financial commitments to the EU, especially given the assumption that there is currently no consensus within the UK government.

## Trade and the North-South Border

Much discussion has been held regarding post-Brexit customs operations between the North and South. Last week the EU stated clearly that the [only viable option](#) in protecting the Good Friday Agreement is to keep Northern Ireland in both the customs union and single market. The reasoning stems from the fact that both the EU and Dublin are deeming it 'essential' to protect the peace process. Ensuring there is no hard border on the island will also alleviate many worries regarding cross-border trade, and the subsequent need to drastically expand customs services and activity.

Insight into the EU's thinking on the border issue came from a leaked document obtained by the Daily Telegraph. Naturally, this was met with disapproval in the UK, with its Secretary of State, James Brokenshire, [stating](#) the following on his recent trip to Brussels; 'I find it difficult to imagine how Northern Ireland could somehow remain in [the customs union and single market] while the rest of the country leaves. I would find it impossible.' He did however maintain that a solution would not be accepted if it involved checks at the border, in line with EU thinking.

Politically, it is difficult for Theresa May to bend to the EU's wants in respect of the border, even if she would like to, as the DUP party in the North stands in fierce opposition to the proposal. Leader, Arlene Foster, described any border between Northern Ireland and Great Britain (as an alternative to one between the North and South) as a ['red line'](#) for the party. As Mrs May's government is propped up by the DUP, she only has so much flexibility in considering the option.

In Dublin, similar political strain is on the Taoiseach who must represent the Republic's interest by blocking the progression of negotiations past Phase One of negotiations, when the issue of the border is to be addressed. At the same time, it would also be in the country's interest to see trade talks involved in Phase Two get underway, as [Cliff Taylor](#) explains in the Irish Times. By allowing enough negotiation time to secure post-Brexit trade deals, cross border trade and regulation will be significantly cheaper than if WTO tariffs are implemented.

### Ireland's trade figures

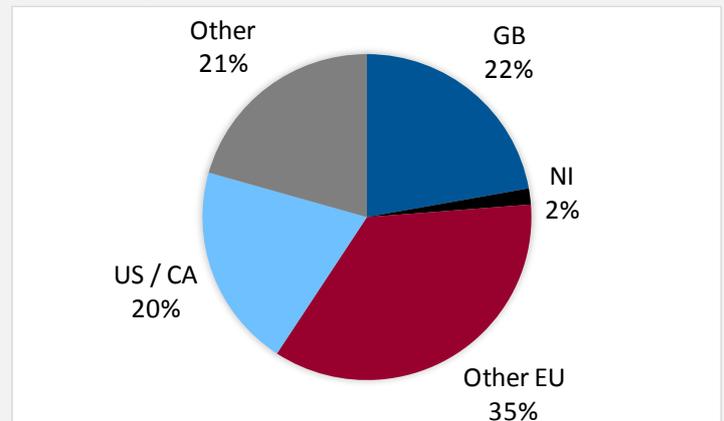
With this in mind, we will look at the Republic and Northern Ireland's trade relationship pre-Brexit, and the challenges posed by a number of post-Brexit scenarios. In terms of euro value or merchandise, the Republic exported €1.85bn to the North between September 2016 and August 2017. Imports from Northern Ireland equalled €1.2bn, giving a net surplus of €650bn for the Republic.

If no deal is reached, it is difficult to say that the island could continue to trade without any checkpoints, as, in such a

scenario, World Trade Organisation (WTO) trade rules would be implemented by default. WTO rules have tariff rates specific to the goods that are traded that would be detrimental to trade between the North and South. For example, tariffs on beef under such a regime can be up to 60 per cent, with dairy facing tariffs up to 50 per cent. Additional costs will also be incurred and travel times increased should goods have to stop at the border to be checked.

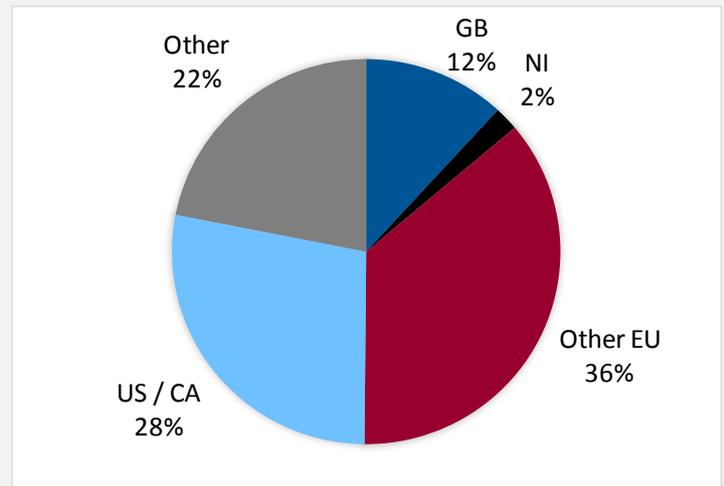
The figures below show the percentage of trade with Ireland (in terms of euro value) for a number of international regions. With a rounded figure of 2 per cent of total value of imports and exports of merchandise going to and from Northern Ireland, we can see that both countries are almost equally dependent on each other. However, the aforementioned trade surplus of €650m, which is a strength for the Republic at present, could open up businesses here to risk if that value of trade is threatened by tariffs. Even more concerning is the impact of a 'no-deal' on Irish exporters to the wider UK area, as a further 12 per cent of the value of exports went to Great Britain over the last twelve months. Similarly, with 22 per cent of imports coming from Great Britain, increased prices would be imposed on Irish consumers in the event of WTO tariffs.

**Total Merchandise Imports to Ireland by International Region (Euro Value) October 2016 – September 2017**



Source: CSO

**Total Merchandise Exports from Ireland by International Region (Euro Value) October 2016 – September 2017**



Source: CSO

## Dock Watch

### Relocation News

#### UK government looking to secure banking jobs in London in light of stark BoE figures

The UK government made efforts to appease members of the financial services industry, and retain banking jobs in London this week - a slight damper on Dublin's opportunity to secure said positions. On Tuesday, Brexit Secretary, David Davis, [reassured](#) financiers at the UBS European Conference that employees in the City of London would be granted special post-Brexit travel allowances, whereby they could travel and work between the UK and EU without restriction. This shows the UK government's awareness of the importance of retaining industry of this nature. Mr Davis' promise comes on the back of comments made by a deputy governor of the Bank of England, Sam Woods, who [admitted](#) that the City could lose 10,000 jobs on day one of Brexit, and losses of up to 75,000 over the long run are 'plausible'. Should this be the case, Dublin will need to be ready to attract and accommodate a potential influx of employees, far beyond those already announced.

### Business & Finance

#### EU funding could be on the way for SMEs

The Irish government and the European Commission have [established a working party](#) that will look into ways of financially supporting SMEs that are facing threat from Brexit, without breaking state aid rules. Frances Fitzgerald, Tánaiste and Minister for Enterprise and Innovation, met with Margrethe Vestager, European commissioner for competition in Brussels to discuss the issue last week, following the publication of '[Building Stronger Business: Responding to Brexit by competing, innovating and trading](#)' by the Department of Business this month. The establishment of the working party follows from commitments the Tánaiste made

in conjunction with the release of Budget 2018, to request EU funding for SMEs who are [mostly unprepared](#) for the consequences of Brexit in 2019.

#### RSM Ireland see striking growth as a result of Brexit opportunities

Brexit continues to provide ample [opportunity for growth](#) across the accountancy and professional services industries. Keeping in line with the trend of good news for such firms, RSM Ireland has been named member firm of the year amongst all subsidiaries globally, beating out those from some 120 other countries. The firm's success is credited to the 144 per cent increase in business seen since the UK's decision to leave the EU was made in 2016. RSM has experienced growth of 23 per cent in its client base, and 25 per cent in fee income. The sharp increase in clients is attributed to the vast number of UK firms seeking advice on doing business in Ireland.

#### Irish Stock Exchange reported to be seeking a buyer

The Irish Times is [reporting](#) that the Irish Stock Exchange (ISE) is contemplating a sale of the bourse following reports the exchange has hired the investment bank Moelis & Co to find a buyer. While the bourse has historically been publicly opposed to such a move, the Irish Times explains the impact that Brexit could have had on such a viewpoint. Journalist Joe Brennan explains how '[the] Dublin exchange could be a defensive bet for the London Stock Exchange (LSE) or an offensive move for another operator as they contemplate the UK's departure from the European Union.' In September the paper [reported](#) that the ISE may be looking for a partner, in contrast with the latest report of a full sale. At the time a spokesperson for the ISE said that '[since] the Brexit referendum, we have been evaluating potential strategies to ensure that the ISE is well placed to take full advantage of Brexit-related business opportunities. This work is ongoing.'



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