

Brexit watch

Monthly briefing on Brexit developments

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The White Paper titled 'United Kingdom's exit from and new partnership with the European Union' has dominated the last month of Brexit discussions. Viewed in some quarters as a helpful step forward it nevertheless has led to high profile cabinet resignations and new pressure points relating to the City of London.

The purpose of the paper was to outline the preferred future relationship between the United Kingdom and the European Union from a British perspective. Discourse on the White Paper was initially positive among politicians outside the UK and some business organisations with the notable exception of the City of London Corporation. While some issues have been publically noted by policy makers, overall, the document was well received. Theresa May came under pressure from within her own party to make certain changes to the proposal, mainly to the customs bill, which negated some of the recommendations in the first iteration. It appears the Prime Minister's need to retain approval and support from within her own party is making her decision making more malleable.

The paper does not bring any further insight to what a post-Brexit Europe will look like. This is mainly due to the failure to reach an agreement on the Irish backstop. Without a guaranteed legal backstop, no withdrawal agreement will be reached.

The negotiations remain tense, both sides are keen to impress on the other the need for compromise. It is helpful to remember that both sides are committed to avoiding a physical border on the island and neither side is advocating a situation that results in tariffs. This remains a significant element of commonality that is easy to forget in the face of the high profile disagreements.

The many strands of negotiation and deal making required within the UK, never mind with the EU, continue to raise questions about the feasibility of reaching a solution palatable to all. Stakeholders will be anxious over the stability of the minority Government and its leader's ability to keep all the plates spinning whilst brokering an acceptable agreement.

This month reminds us how challenging the journey will be to achieving such an outcome.

1 Political Developments

United Kingdom

UK White paper published

The [paper](#) sets out the UK's wishes for their future relationship with the EU. It indicates the potential for a [softer Brexit](#) with a close trade and economic relationship. If the recommendations in the paper were to be implemented it would see the UK enter an [association agreement](#) with the EU. In short, this would result in a free trade agreement i.e. no custom duties or tariffs. The UK would then continue to follow existing EU rules governing product standards and regulations for [industrial and agricultural products](#). Such an outcome would mean that no customs border would be necessary on the island of Ireland.

However, [four amendments](#) have been incorporated into the customs bill to appease the 'hard Brexiteers'. These alterations rule out a customs union with the EU without legislation. Britain cannot collect tariffs for the EU unless the action is reciprocated and must have a VAT policy that is distinct from EU VAT policy. The alterations also rule out any distinct customs agreements for Northern Ireland (or any other part of the UK).

UK White Paper Fallout

While the White Paper appeals to those eager for a softer Brexit, the proposals are not without opposition. The resignation count within the Tory Party was at [eight MPs](#) as of Sunday 14th of July. Prominent politicians such as Boris Johnson, Steve Baker and David Davis resigned, stating that the outcome of the paper was not 'reflective' of a true Brexit.

No Border in the Irish Sea

The UK Government [outline](#) that the present EU proposal for the Irish backstop would see NI remaining in the customs union and large parts of the EU VAT system and the single market. Theresa May stated that introducing a border down the Irish sea is not something that she, nor any other British Prime Minister, could ever accept.

Second Referendum?

The plan attracted criticism from pro-European and pro-Brexit [politicians](#). A former cabinet minister, Justine Greening, recently called for a second referendum in the future.

European Union

Irish backstop imperative to withdrawal agreement

Last week, Michel Barnier, speaking at the Carnegie Institute in Washington D.C., [noted](#) that the Irish backstop is imperative to the withdrawal agreement if a decision is to be made by October. Barnier underlined that a backstop was needed to ensure no border. He went on to say that it was possible for the UK to be part of a goods customs union, though, the UK would have to obey the EU's trade policy for goods.

Republic of Ireland

Tánaiste welcomes clarity

Speaking at the Institute for International and European Affairs in Dublin, Minister Coveney [welcomed](#) the clarity from the British Prime Minister. Despite the resignations, Mr Coveney declared it 'a good week for Brexit.' Additionally, Coveney outlined that the paper was a [step towards](#) 'a softer Brexit than some people had been advocating for.' While he welcomed the paper and acknowledged it as a stepping stone, he also emphasised the potential [contradictions](#) as a problem for the functioning of the single market and the EU. Mr Coveney also stated that if the UK did not support the wording in the [current](#) backstop agreement, it should put forward a substitute which delivers no border.

Northern Ireland

Sinn Fein calls for urgent prioritisation of Irish backstop

Sinn Fein's Michelle O'Neill, has called on the Republic of Ireland leader to stand up and protect Northern Ireland's interests. The comments come after alterations were incorporated into the customs bill which O'Neill described as the British Government [tearing up](#) its own Brexit proposals. She urged Mr Vardkar to ensure legal guarantees in relation to the Irish backstop. A Department of Foreign Affairs [spokesperson](#) reinforced the point that the Irish Government's position on the backstop has not changed, acknowledging that there can be no withdrawal agreement without a legal backstop.

2 Economic Developments

Turbulence in the Aerospace Sector

The UK leaving the EU has many serious implications for nations on both sides of the negotiations, the consequences are far reaching. Media attention has revolved around free trade and the movement of people. The potential impact on specific industries varies considerably and the Aerospace Sector has begun to outline the complex impacts it faces. These include regulation and ensuring safety for passengers and also the arrangements for flying within a nation's, or group of nations', airspace.

Regulation and Safety

The first issue focuses on the European Aviation Safety Agency (EASA) and its function within the UK after Brexit. [EASA's](#) mandate is to ensure safety and environmental protection in air transport within Europe. EASA has many duties but regulation, certification and developing the single EU aviation market are amongst the most significant.

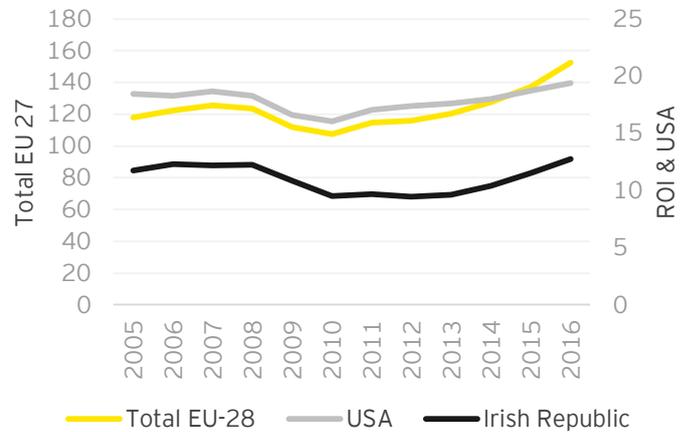
The question currently posed is whether the UK and EU will reach an agreement for EASA to continue its function within the UK or will the [Civil Aviation Authority \(CAA\)](#), which is the UK equivalent, assume the role of EASA. The CAA are implementing contingency plans in case there is a need to fulfil regulatory functions independent from the EU post-Brexit. This may require between 30 to 50 staff, with vacancies now being [advertised](#).

Future use of Airspace

Common aviation travel agreements focus on air travel within nations e.g. the European Common Aviation Area (ECAA) and EU-US Open Skies Agreement. This allows members to fly using the airspace over another member's nation.

Late last week Taoiseach Varadkar, addressed this issue [saying](#) 'the UK has decided to leave the EU, decided to leave the single European sky, and if they want their planes to fly over our sky, they would need to take that into account'. However, it's not just an issue for the UK, the EU also needs to use UK airspace. This is especially true for Ireland. A bilateral agreement, similar to that between the [EU and Switzerland](#) for aviation, could be reached.

Fig 1: International passenger movements at UK airports 2005 to 2016 (measured in millions)

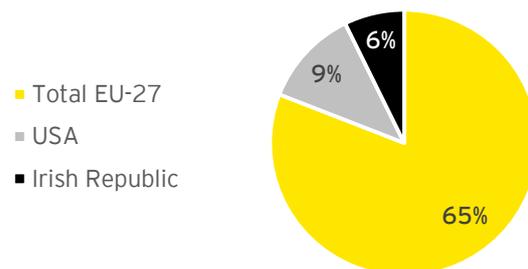


Source: [GOV.UK](#)

Flight Analysis

The above data outlines the trend from 2005 to 2016 for international passengers at UK airports. The graph outlines the significant numbers of passengers that come from the ECAA and the EU-US Open Skies Agreement countries. The data outlines the importance of such agreements to EU and US customers. The importance of EU passengers to the UK is further emphasised by fig 2. 65 per cent of international passengers in UK airports were from the EU27.

Fig 2: Average Yearly Share of International passengers 2005 to 2016



Analysis indicates it is imperative an arrangement is reached to protect passengers and the future airspace relationship between the EU and UK. The data doesn't include the number of times that the EU and UK use each other's airspace i.e. flight from Paris to New York flying over the UK. If this data was taken into account it would no doubt show a greater dependency. Furthermore, if the UK leaves the ECAA it will have to negotiate new airspace use agreements with every other nation they had access to under previous agreements.

3 Business Developments

Reactions to the White Paper

Business reaction across the island was cautiously optimistic. [Glyn Roberts of Retail NI](#) underlined that 'Trade between Northern Ireland and the rest of the UK must remain unfettered.' This White Paper includes all of those commitments, promising frictionless trade, avoiding customs and regulatory border checks, through a facilitated customs arrangement.'

Echoing this sentiment, Danny McCoy of IBEC stated 'The UK paper points towards a less disruptive Brexit.'

A notable exception was the City of London Corporation, their Policy Chairperson Catherine McGuinness [said](#), 'With looser trade ties to Europe, the financial and related professional services sector will be less able to create jobs, generate tax and support growth across the wider economy.'

EY Brexit Strategy Team: Current outlook

The IMF is projecting that Ireland's economy would suffer a [4% loss](#) in a no-deal Brexit with a 1.5% economic loss across the EU overall. Clearly, an agreement on customs and the border issue is in the interest of both parties.

However, the latest predictions from EY's Brexit Strategy Team show a one in four chance of a 'no-deal' scenario and a reversion to WTO rules. The likelihood of no deal has also increased since the last quarter and since the referendum.

IBEC have advised businesses to put in place 'contingency plans for all outcomes' this echoes the advice from the EY Brexit team.

Table 1: Current Brexit Outlook

	% likelihood (July 2018)	More or less likely since last quarter? (February 2018)	More or less likely since referendum?
Free Trade Agreement	30	Less	Less
Customs Union	35	More	More
World Trade Organisation rules	25	More	More
European Economic Area	5	Same	Same
Remain in EU	5	Same	Same

CBI IBEC Business on a connected island report

July saw the release of the IBEC-CBI Joint Business Council's (JBC) study of the impact of the integrated '[All-island economy](#)'. In arriving at their conclusions, the JBC highlights the lack of collaboration between NI and ROI statisticians in measuring this impact. Therefore, the real benefits are likely to be far larger than currently measured. Current CSO estimates depict a 17 fold increase in North South trade between 1973 (when they ascended to EU membership) and 2000.

Access to labour markets

The pooling of labour markets gives the island's businesses access to a combined work force of 6.6million, as opposed to 1.86m (NI) and 4.76m (ROI). This is higher than the labour force of Denmark or Norway. With a higher rate of third level qualification attainment in ROI (53 per cent of 30-35 year olds vs 35.5 per cent in NI), NI businesses benefit substantially from access to this pool.

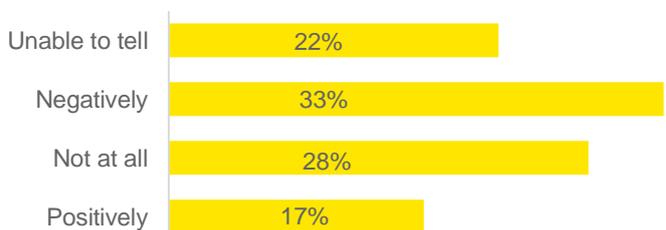
Importance of customs arrangements

Using UK Border Force Transparency data, the cost per passenger processed at the UK border was approx. £2.70 in 2015/16. Extrapolating this out to all-island journeys, the estimated saving from the absence of border checks is £300m per year or £7.5bn since such checks were removed. The report highlights the concentration of cross-border trade in agri-food, chemicals and building materials totalling 60 per cent. The integration of cross-border trade in these time-sensitive sectors must motivate a fluid, border free customs agreement.

How has Brexit impacted business?

EY continue to work with clients to understand how Brexit is impacting them. In our recent [Economic Eye Forecast Webinar](#) in June we asked how viewers had been affected by Brexit thus far. Encouragingly, only a third responded that any real negative effects had materialised, though this likely reflects that many of the material changes are yet to come.

Figure 3: EY Economic Eye Survey



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