

# Brexit watch

## Fortnightly briefing on Brexit developments

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The UK Government's ambiguity has been a constant challenge for EU legislators and businesses as we move closer to official trade talks. However, it seems that every time a new position is announced or leaked, backbench Tory MPs (on both sides of the debate) announce their dissatisfaction, creating further division within the party. This week alone has brought two instances of such a pattern. The first on Tuesday in the form of a letter to the Prime Minister from hard-Brexit backbenchers. The leaked note showed united opposition to Mrs May's negotiation approach and was signed by 62 of her MPs.

On Wednesday, first reports surfaced of a Whitehall position paper which suggests the transition period should be open-ended. The paper, which has reportedly been shared with EU colleagues, has further inflamed Government members who believe the transition period should be two years and no longer. The EU has already indicated it expects the transition to extend to December 2021, beyond the two year limit, but keeping in line with Mrs May's comments of lasting 'about' such a length.

The current consternations provided an interesting backdrop to the strategy planning Mrs May lead this week. The 'Brexit War Cabinet' gathered on Thursday to determine the UK's position on the future trade relationship, prior to negotiations beginning in March. There is clear pressure from within the Tory party to pursue a hard-line approach, however it remains to be seen if this is enough to convince May of their arguments.

Despite lengthy efforts, and an unusually low profile negotiation phase, the talks to restore devolution in NI have once again failed to reach a deal. The Irish language remains a key sticking point although it does appear from leaked papers that a deal was edging closer, perhaps offering small encouragement that there may yet be further progress. Taoiseach Leo Varadkar met with Sinn Fein this week, as well as discussing developments, or lack thereof, with Theresa May. Subsequent to the breakdown in talks, both the British and Irish Governments have made it clear they share an aim of avoiding direct rule.

Tainiste Simon Coveney's criticism of British MPs who insinuated the Good Friday Agreement is no longer fit for purpose, has fuelled debate on the challenge of Northern Ireland's situation post-Brexit. Three pro-leave MPs have suggested removing the agreement which has been interpreted by Coveney as a reckless attempt to make Brexit easier for Britain.



**Kathy Stout**  
Economist | EY-DKM  
Economic Advisory

# 1 Political developments

## Ireland

### Norway's Ambassador to Ireland responds to Taoiseach's comments on a 'Norway Plus' deal

The Norwegian ambassador to Ireland has contradicted the Taoiseach on the viability of a 'Norway Plus' deal with the UK. Speaking at the World Economic Forum last month, Mr Varadkar suggested he would like to see a post-Brexit agreement that was an enhanced version of Norway's current arrangement with the EU.

Ambassador Else Berit Eikeland believes an expansion on Norway's deal would effectively be EU membership and require inclusion in the single market. She said she was unsure of what the Taoiseach felt 'Norway Plus' meant in practice. UK Prime Minister Theresa May ruled out this option last week, suggesting a bespoke UK deal can be achieved without involvement in the single market or customs union. Ms Eikeland also sought to remind negotiators and commentators that while the border is frictionless, traders must stop briefly for a customs check, and there are no 'political sensitivities' as are a concern on the Island of Ireland.

### Tánaiste condemns 'reckless' commentary from British MPs

On Tuesday, Tánaiste Simon Coveney tweeted that those 'taking down the Good Friday Agreement' in pursuit of Brexit are reckless and undermining the peace process. Mr Coveney's comment comes as a number of British MPs have been heard to criticise the Good Friday Agreement as having 'outlived its use'. Former Northern Irish Secretary, Owen Paterson, who made the comment, has suggested his opinions on the matter are entirely separate to his staunch pro-leave views.

Northern Ireland's post-Brexit arrangements and the Irish border are thought to have potential to stall negotiations entirely over the coming months. Mr Coveney has commented in the past on the importance of comprehensively addressing Ireland's unique situation, with tangible, legally enforceable agreements.

### Ireland 2040: Government sets out plans to counteract Brexit challenges with national growth

Ireland 2040 was launched with much fanfare last week. While the overarching aim is to provide a 'forceful response to these [public capital] deficits' that have occurred since the financial crisis, future threats and opportunities were also expanded upon. The plan indicates that the upcoming effects of Brexit have indeed been borne in mind by the Government. The highly anticipated National Development Plan 2018 - 2027 (NDP) mentions Brexit 45 times in total, and seeks to address not only the risks, but also the opportunities Brexit brings to Ireland.

## Economic Performance

### European Union

Available from EuroStat

- International trade in goods for December 2017 shows a surplus of €14.3bn for EU 28, and €25.4bn for euro area (EA19).
- Intra-EU28 trade grew by 7.3% to €3,343bn in 2017 against 2016. Growth of 7.4% was seen across the EA19 to €1,817bn the same year.
- The Flash Estimate for GDP in the EU 28 (Q4 2017) is up 0.6% on the previous quarter, and 2.6% on Q4 2016.

### Great Britain

Available from the ONS

- Consumer Price Inflation 12 month rate (including housing costs) remained steady at 2.7% in January 2018.
- The total UK trade deficit grew by £3.8bn to £10.8bn in the three months to December 2017. This was largely due to a increase in the trade deficit of goods as opposed to services. Large fuel imports played a substantial role here.

### Recent Statistics

### Republic of Ireland

Available from the CSO

- Goods export and import figures showed a 0.2% surplus increase from 2016 to 2017. Goods exports stood at €122bn for Jan - Dec 2017 - the highest recorded annual figure. Food and Live Animals saw the highest year-on-year export growth of 12.5% in 2017.
- The CPI annual inflation rate was 0.2% in January. Year-on-year prices show a drop in clothing of 3.1% and an increase in Housing, Water, Electricity, Gas & Other Fuels of 3.7%.

### Northern Ireland

Available from the NISRA

- The Labour Force Survey was released for Q3 2017 and shows a 10 year low of 3.8% unemployment.
- The Northern Ireland Composite Economic Index shows year-on-year growth in economic activity of 1.2% from Q3 2016 to Q3 2017.
- The volume of construction activity increased by 1.2% from Q2 to Q3 2017. The year-on-year increase was 11.3%.

Brexit related initiatives in the NDP include; supporting growth in Ireland's connectivity as a means of increasing international competitiveness, continuing to strengthen ties between Dublin and Belfast, and using public investment to create an attractive environment for enterprise growth. With respect to negotiating to protect Ireland's interests, the NDP highlights the Government's goal to see a future relationship between the UK and EU that is 'as close as possible'.

# 1 Political developments

## United Kingdom

### Theresa May receives 'ransom note' from hard-line Brexiters

Over 60 backbench Tory MPs have [outlined](#) a number of hard Brexit 'suggestions' to the Prime Minister, which were described as a 'ransom note' by Mrs May's allies. Reports of the letter surfaced on Tuesday evening, two days before May would hold a 'Brexit War Cabinet' with close Ministers. It is assumed the UK's demands for the future relationship will be determined, and clearly a significant number of Government MPs worry the approach will be too soft.

The letter was signed by Conservative members of the European Research Group (ERG) and outlined the following strategies needed to achieve a 'free-trading, global Britain':

- Taking control of [the UK's] tariff schedule at the WTO,
- Full regulatory autonomy,
- Brexit negotiations must dovetail into a global strategy,
- The UK must be free to start its own trade negotiations,
- The UK should negotiate as an equal partner, and
- Any 'implementation period' should be based on WTO principles.

### David Davis highlights the UK's strong regulations and European values in Vienna speech

Chief Brexit negotiator for the UK, David Davis, [spoke](#) on the future economic relationship in Vienna last Tuesday. Following in Mrs May's footsteps, Mr Davis outlined his vision for a post-Brexit relationship in a European City of historic significance, and emphasised 'the ideas and values of those of us who are proud to call ourselves Europeans'.

In what some have [interpreted](#) as a move towards compromise, Davis focused on regulation in the UK and that the Government will continue to legislate for further regulation as they leave the EU.

On trade, Mr Davis put forward an option that resembled what would transpire should the UK remain in the single market. An example was used of an automobile trade between Austria and the UK where there are only one series of regulatory checks. The Minister said 'that's exactly the sort of arrangement we want to see maintained even after we leave the European Union' expecting UK approvals to be accepted by EU trade partners. He also called for state aid rules to remain both in the UK and EU post-Brexit to ensure competition remains fair.

## Labour emphasises need to remain in customs union

Responding to the ambiguous position of Government, Labour has [hinted](#) that retaining 'some form of customs union' is the only way to move forward, given the challenges of Northern Ireland and trade tariffs. Shadow Foreign Secretary, Emily Thornberry, in making the comments did acknowledge the difficulty of remaining in the single market when the referendum debate highlighted significant concerns with migration.

## European Union

### Munich Security Conference presents awkward 'truth' for Theresa May

Global leaders gathered in Germany last week for the Munich Security Conference. While it facilitated important debate on the future of EU security post-Brexit, it also presented Wolfgang Ischinger, Conference Chairman, an opportunity to [tell](#) Mrs May; 'things would be so much easier if you stayed'. The comment was met with applause from the audience, however the Prime Minister made it clear there would be no second referendum, and the British people could trust their politicians would respect their decision.

Mrs May used her speech to [appeal](#) for a new security treaty between the EU and UK, but this has not been warmly received by EU leaders. Jean-Claude Juncker stressed that the issue of security cannot be used as part of the UK's bargaining strategy in the upcoming negotiations.

### European Parliament to suggest UK have 'privileged' access to the single market post-Brexit

Business Insider UK [reports](#) that the European Parliament will announce a new resolution on Brexit in the first week of March. Sources have suggested the Parliament is open to allowing the UK 'privileged access' to the single market, breaking position with Chief EU negotiator Michel Barnier. While a number of sources are cited, the reports are yet to be officially confirmed.

## Northern Ireland

### Politicians work to avoid return to direct rule

At points during the past fortnight, it seemed talks to restore power-sharing at Stormont were progressing well. Political differences on an Irish language bill once again led to the impasse with the British and Irish Government's now working to prevent direct rule. Northern Ireland Secretary for the British Government has [suggested](#) new elections may be needed to avoid this. She is due to provide clarity on the budget 'as soon as possible'.

# 2 Economic Updates

## Looking back on 20 Issues of Brexit Watch

With 20 issues of Brexit Watch behind us, we take a look at the analysis provided over the last year, and how new data has changed or reinforced the economic narrative.

### Sector Analysis: Level of Exposure

In Issue 4, we discussed the proportional exposure and size exposure of the agri-food sector. Since that publication, the Department of Finance has released; [UK EU Exit: Trade Exposures of Sectors of the Irish Economy in a European Context](#) which further discusses this issue.

As a reminder, proportional exposure is the proportion of a sectors global exports that go to the UK, and size exposure is the proportion of a country's UK exports accounted for by a particular sector. The report finds, unsurprisingly, that the Irish food and live animals sector has the highest level of both proportional and size exposure to the UK of the EU 27. The Irish chemical sector has the highest level of size exposure, and the manufactured goods, and machinery and transport equipment sectors are ahead of all EU counterparts for proportional exposure also.

In better news however, analysis over time shows that Ireland's proportional exposure to the UK in the chemical, machinery, miscellaneous manufacturing, beverages and tobacco, and agricultural residual sectors has decreased from 2000 to 2015 as Ireland became a more globalised economy. That is, the proportions of Irish exports from these sectors sold to the UK market have decreased over this 15 year period, indicating a greater dependence on our non-UK trading partners.

### Border Challenges

This publication frequently addresses the latest proposals on how to accommodate trade at the Irish border following March 29<sup>th</sup> 2019. The debate has often cited the Norway - Sweden border as an example of the role technology can play.

This month, Anne Tornqvist, Director of the Swedish Customs Clearance Process, spoke at the [Policy Forum for Ireland](#) Keynote Seminar on Brexit, and addressed both the opportunities technology provides, but also the areas where the Swedish experience deviates from that of Ireland.

The border operates under shared control of the two countries, and exporters need only go through customs once.

Customs declarations are completed electronically, ahead of time, but drivers carrying goods are still required to stop and enter a customs office to confirm these details. There is currently a planning process to solve for this issue, and Ms Tornqvist admitted it is less than ideal.

The example shows that technology can be used to limit border delays, however she did admit that the socio-political history between Norway and Sweden is very different to that experienced on the island of Ireland.

### Exchange Rates and Trade

Figure 1: Daily Exchange Rates - Euro Reference Rate, January 2016 - January 2018



Source: Central Bank of Ireland

The exchange rate has been an interesting indicator of market confidence and sentiment with respect to Brexit over the past 18 months.

Over this time, the euro has strengthened significantly reaching a height of €1=£0.92 on the 30<sup>th</sup> August 2017. At the time there was great speculation that the euro and pound would reach parity in spring of 2018. While the pound has weakened significantly against the euro since the referendum in June 2016, the rate has remained relatively steady over the past 5 months, around the £0.89 mark.

Irish exporters will hope to avoid a parity situation, as an increasingly weakened sterling will raise the relative price of their good and services to UK importers, therefore decreasing competitiveness of Irish products.

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Contact us



**Professor Neil Gibson**

Chief Economist | EY-DKM Economic Advisory

[neil.gibson1@uk.ey.com](mailto:neil.gibson1@uk.ey.com)

+44 28 9044 1700



**Kathy Stout**

Economist | EY-DKM Economic Advisory

[kathy.stout@ie.ey.com](mailto:kathy.stout@ie.ey.com)

+353 1 475 0555



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