

Brexit watch

Fortnightly briefing on Brexit developments

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With now just under one year to go until the UK officially leaves the EU, we are seeing future trade proposals come to the fore - albeit some less practical than others. Nevertheless, this could facilitate upcoming negotiations as both sides have predetermined scenarios beyond a 'hard Brexit' - an outcome unwanted by the vast majority of stakeholders.

Theresa May's most recent plan involves a customs partnership, under which the UK would collect import tariffs on behalf of the EU. Whether any of the elements of the arrangement will be accepted in Brussels is yet unknown. That being said, efforts on the part of the UK to provide more detailed solutions for customs and regulatory processes on the island of Ireland will be welcomed, at least as a show of good faith.

Up to now, a variety of border solutions have been put forward that rely on advanced technology. Unfortunately, the high level of technology required makes most of these options unworkable, as the technology does not yet exist.

In terms of the timeline, between now and 29th March 2019, the trade deal must be finalised and enacted legally. More specifically, an agreement by October 2018 is needed to ensure adequate time to pass the necessary legislation. There is also the issue of MPs in the House of Commons voting on whether to accept the final withdrawal agreement. Obviously the Withdrawal Bill itself will first need to be mutually concluded before these steps can be taken, but beyond that, political stability and confidence will be key in seeing the process through.

In spite of sustained efforts to bring forward a vote of no confidence, Theresa May is holding firm to 10 Downing Street. That is not to say criticism has entirely dissipated, rather Mrs May continues to assure enough of her colleagues that remaining as Prime Minister is the best option to see Brexit through - and is now also positing herself as the best option to lead the Tories into the next election in 2022. There is still the argument in political commentary however, that at this point of the process, no other Tory member would want the position as it is impossible to please both sides of a highly polarised debate. Regardless of the motive, discussion of leadership challengers has quieted significantly over the course of the year.



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1 Political developments

Ireland

Government reaction to 'customs partnership'

A spokesperson for Taoiseach Varadkar has [responded](#) with caution to the UK's plans for a customs partnership. He highlighted that the execution of such a plan would 'take a long time to negotiate and prepare for implementation.' The Government's position is that any plan must be drawn up with extensive legal detail to secure Irish support.

Simon Coveney's spokesperson has said the Tánaiste will not provide a running commentary on the Brexit discussions as the place to do this is at 'the negotiating table.'

Stakeholders are following the reactions of the EU and UK to their counterpart's comments with intense focus as they relate to the new trade agreement. Arguably, the Irish reaction is of the next greatest interest to those with a stake in developments. This is particularly the case since the EU announced the Irish position would be adopted by the EU as a whole throughout the course of negotiations.

Criticism of Government from Fianna Fáil

Fianna Fáil leader, Micheál Martin has [criticised](#) the Government's actions in allowing the transition agreement to proceed without securing further assurance on how the border would be handled. Martin says the move could be 'a major strategic error' that will become apparent down the road.

When asked by the Irish Times if he believes the Government should have used its veto power to block the transition agreement, he does not say outright, but attests that 'they should have held back and gone harder in negotiations.' Without much progress since, it's difficult for commentators to determine if Martin's approach is informed by political instinct, developed over 30 years as a member of the Dáil, or fulfilling his role as opposition leader in holding the Government to account.

On Northern Ireland, the Fianna Fáil leader believes a special economic zone would be the most effective solution for Ireland. In such a case, Northern Ireland would operate as part of the UK and the EU concurrently. This approach has not been well received in the UK previously, indicating Martin's approach would not necessarily be favoured by negotiators over that of the current Government - as he might suggest.

Mr Martin is also loath to say there is any chance of a second referendum, and expects Theresa May will seek a Canada plus style arrangement - an arrangement he believes would have harsh, negative consequences for Ireland.

Economic Performance

European Union

Available from [EuroStat](#)

- Euro area annual inflation is expected to be 1.4% in March 2018, up from 1.1% in February. Processed Food, Alcohol and Tobacco as an individual component showed the highest growth of 2.2%
- The euro area (EA19) seasonally-adjusted unemployment rate was 8.5% in February 2018, down from 8.6% in January 2018 and from 9.5% in February 2017. This is the lowest rate recorded in the euro area since December 2008

Great Britain

Available from the [ONS](#)

- The households' saving ratio fell to an annual record low (since 1963) of 4.9% in 2017 as growth in households' spending exceeded the growth of income
- Real household disposable income growth slowed to 0.1% in Q4 2017 compared with Q3, as the impact of inflation intensified
- Households accumulated slightly more debt (loans) in 2017 than they did financial assets for the first time since records began in 1987

Recent Statistics

Republic of Ireland

Available from the [CSO](#)

- The seasonally adjusted unemployment rate for March 2018 was 6.1%, unchanged from the revised rate of 6.1% in February 2018 and down from 7.0% in March 2017
- The Monthly Services Index for February shows a m-o-m decline of 2.5%. In the year to February 2018 there was an increase of 1.1%
- On a monthly basis, Wholesale and Retail trade recorded an increase of 0.4% but on an annual basis showed the strongest growth across service sectors at 7.2% growth

Northern Ireland

Available from [NISRA](#)

- The Nov 2017 to Jan 2018 unemployment rate stood at 3.2%, down 0.8% q-o-q. This is the joint lowest rate on record
- The economic inactivity rate (28.4%) decreased over the quarter by 0.5 percentage points but increased by 2.3 percentage points over the year
- The volume of construction activity increased by 1.2% from Q2 to Q3 2017. The y-o-y increase was 11.3%

1 Political developments

United Kingdom

May puts forward plan for 'customs partnership' with EU

In an effort to progress negotiations on trade, Prime Minister Theresa May has proposed a [customs partnership](#) with clear efforts to tackle issues on the Irish border post-Brexit. This type of plan has previously been described as 'magical thinking' in Brussels, however will be officially discussed with EU negotiators later this month. Criticisms include it being technically unviable, although the efforts are in line with commitments made on trade on the island of Ireland.

What does a customs partnership look like?

- The UK would act as the external frontier with regard to customs and tariffs. This involves the UK collecting tariffs on behalf of the EU for goods coming into the UK and travelling on to the EU. The money would then be passed on to Brussels.
- In aligning itself with the EU, the UK would enforce the same requirements as the Union in processing global imports. This option would eliminate the need for customs checks at the Irish border.
- The UK would enforce EU customs checks and also collect its own tariffs on goods coming into the UK as their final destination.

Criticisms of the scheme

- In establishing such a customs arrangement, technology would be needed to determine the final destination of imported goods in order to apply the correct tariffs, as per the EU or UK economy trade deals. It is believed that technology of this nature is not advanced enough to fulfil the required role, as [discussed by](#) the Northern Ireland Affairs Committee in the House of Commons.
- If the EU were to agree to the partnership, it is argued that the necessary processes and systems could not be adequately implemented in good time. A senior researcher at the Institute for Government, Joe Owen, says 'it's very unlikely that new border arrangements will be negotiated in detail, designed and completely implemented' by the end of the transition period - January 2021.

A second customs arrangement was proposed along with the aforementioned, which also relies heavily on technology to establish a workable solution. It is a 'streamlined' customs deal based on global best practice, however it would require checks at the border in its present form so has not gained much attention.

Commons select committee recommends EFTA/EEA continued membership if talks stall

The Commons Select Committee on Exiting the European Union recommends reverting to EFTA/EEA membership in the event that negotiations 'on a deep and special partnership [do] not prove successful.' This is a strong statement from a cross-party committee, but it must be highlighted that this specific recommendation was passed and included on a [10 - 6](#) majority showing the division that exists in the Committee.

[The Future UK-EU Relationship](#) report also sets out 15 tests under which any final deal should be analysed. The first is for the Irish border to remain free from any physical infrastructure - another sign that the Government is paying credence to its commitment. Granted this, other tests give the impression that the list is more an identification of the ideal scenario, rather than a practical benchmark against which the deals should be measured.

For example, the report requires 'no additional costs to businesses that trade in goods or services' and that 'trade in goods must continue to be conducted with no additional border or rules of origin checks' that would cause a delay.

European Union

Study of journalism highlights low concern over Brexit in EU news content

If the UK was looking for cracks in EU unity on Brexit, it won't be found in the [latest report](#) from the Reuters Institute. Analysis of Brexit reporting across eight EU Member States determines that reporting was predominantly fact-based with 78% of content taking no position in either direction. 68% of EU news reflected the British situation, with only 19% focusing on the implications of Brexit on the EU. The study finds 'a general lack of anxiety about the future of the EU and the impact of Brexit on Europe.'

Northern Ireland

Mary Lou McDonald calls for greater efforts from Irish Government in facilitating talks in the North

Sinn Féin leader Mary Lou McDonald recently [spoke out](#) against the Irish Government's efforts to aid political progress in the North. The UK Government has remained non-committal on an intergovernmental conference to re-establish a power-sharing assembly at Stormont. Ms McDonald says 'it is unwise for Dublin to allow the Tories to stall things to this extent' with Brexit trade negotiations getting underway. Tánaiste Simon Coveney has raised the prospect convening with the Northern Secretary in the House of Commons and is expected to do so again after the Easter recess.

2 Economic Updates

Global Context as Negotiations on the Future Trade Relationship Begin

The pages of most news publication make for interesting reading at present with Brexit uncertainty juxtaposed with positive global growth seen across the board.

Commentators on the Irish economy are concerned with overheating. When the Brexit referendum was held nearly two years ago, this issue was not predicted to be influential.

The current positive global landscape could be contributing to recent reports of businesses holding off on plans to Brexit-proof their activity - the 'availability heuristic.'

The availability heuristic is a behavioural economic concept. It is the giving of preference by decision makers to information and events that are more recent, that were observed personally, and were more memorable.

With such a seemingly positive global economic outlook (potential trade wars aside) there is a risk that a proportion of stakeholders affected by the final Brexit deal will place a disproportionate weight on the current good climate as an indicator of future growth post-Brexit.

What is the global context within which trade negotiations will be held?

The positive data continues to roll in for Ireland. GDP growth in 2017 is now estimated to be a remarkable 7.8%. This figure is distorted somewhat by data peculiarities (notably around IP) but the underlying growth is still very impressive and comfortably atop the European growth charts. In fact Ireland is expected to exceed the 2017 growth rates in China and India.

Headline GDP is an unreliable measure taken in isolation. The indicator dashboard indicates a very strong and accelerating economy. A net 66,500 jobs were added in 2017, exceeding expectations and increasing the talent squeeze which is spreading across sectors.

An increased level of government spending is complementing strengthening consumer spending, private sector investment and trade volumes. Ireland is an economy in which all four engines of growth are fully firing.

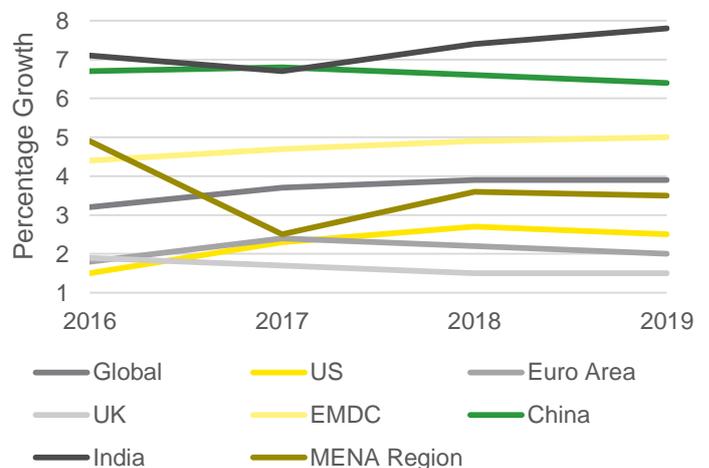
Northern Ireland's performance may pale in comparison to its neighbour but it is ahead of most commentators' expectations.

Job growth has been particularly impressive with an increase of 15,000 jobs in 2017, and business surveys continue to report growth in orders and employment. Currently the outlook remains unchanged as consumer pressures are expected to temper performance but forecast revisions for 2018 now appear more likely to be upward than downward.

Global growth is expected to edge close to its pre-crisis rate of 3.9% in 2018 although nervousness over an escalation in trade wars is causing stock market volatility which, if sustained, will impact economic performance.

The US has increased interest rates and signalled two more to come in 2018, increasing the spread with the UK and ECB headline rates. This may add further, very slight, pressure on the UK to look to return rates to a 'normal' rate, but weaker headline growth and inflation edging downwards may offset this risk.

Figure 1: World Economic Outlook, Growth 2016 to 2019



Source: International Monetary Fund

Notes: EMDC refers to Emerging markets and Developing Countries. MENA refers to the Middle East, North Africa, Afghanistan and Pakistan. The World Economic Outlook measures global output where 2016 / 2017 are actual figures and 2018 / 2019 are projections.

Against the positive headline data there are significant threats to global growth. Increased geo-political tension, accelerating trade wars, Brexit and worries over cyber threats top the risk register. Ensuring adequate risk preparation is best done in times of relative calm, but this is often the time that consideration of future challenges slips off the agenda. Businesses will have to bare this in mind in planning the year ahead.

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