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**DKM Commentary:**

All is quiet on the European front. The European Quarter is empty as temperatures soar across the continent. Until business as usual resumes in September, UK and Irish pundits and politicians are free to dominate the airwaves. They have not disappointed: in the UK there is word of a €40bn financial settlement for exiting the EU and in Ireland leaders have struck a new tone vis-à-vis the question of a border on the island.

Claims that the UK government is willing to meet its financial obligations to the tune of €40bn were quickly dismissed by Downing Street as “speculation”. Yet, at some point in time, British citizens will have to be made aware that the UK meeting its current financial obligations is a prerequisite of an EU-UK agreement. Should Westminster fail to provide clarity on the ‘exit bill’, the UK economy will suffer. The continued fall in consumer spending should be heeded.

Strong language from Taoiseach Leo Varadkar on Brexit has been deemed “unhelpful” by the DUP and some former UK officials. Yet, some believe that by presenting three potential ways to soften the UK’s exit, Mr Varadkar is attempting to tap into a nascent anti-hard Brexit sentiment spreading across the UK. Indeed, even British trade unionists are changing tune, with growing numbers arguing that EU rules would best protect British workers post-Brexit.

As Europe heats up and all is still on the streets of Brussels, could it be that winds of change are fast approaching England?
United Kingdom

How about €40bn?
According to the Sunday Telegraph newspaper, senior UK officials have indicated the UK’s willingness to agree to pay €40bn (£36bn) to the EU as part of its exit settlement. However, a senior UK Government source told the Press Association agency that “no such figure has been agreed” while a Downing Street source dismissed the €40bn figure as “speculation”. The news site Euractiv reiterated that UK advisers wish to know the legal basis for the €60bn figures that had been mentioned by a number of EU representatives, which they have suggested is too high.

Cable: Brexit hardliners are no martyrs
Sir Vince Cable, leader of the Liberal Democrats, has accused older voters of “shafting” younger generations by choosing economic pain over EU membership while thinking of themselves as “Brexit martyrs”. In an article in the Mail on Sunday, Mr Cable declared that “the martyrdom of the old comes cheap, since few have jobs to lose,” accusing hardliner Brexiteers of “imposing a worldview coloured by nostalgia for an imperial past on a younger generation much more comfortable with modern Europe”. His article responds to recent data from a YouGov poll showing 61% of Leave voters to believe “significant damage to the British economy [is] a price worth paying” for the UK’s exit from the EU.

‘Stop Brexit’ march to be held outside Conservative conference
Pro-EU campaigners are planning to stage a large ‘stop Brexit’ march outside the Conservative party conference, which begins 1 October in Manchester. The rally will involve a number of pro-EU groups and has the support of the Liberal Democrats. According to the Guardian, organisers of the march are hoping to attract pro-EU Conservatives as well as activists from Scotland and Northern Ireland.

Gove uncertain on fishing position
UK Environment Secretary Michael Gove has allegedly told the Danish fishing industry that EU boats will still be permitted to fish in UK waters following the UK’s exit from the EU. This is seen as contradicting his position in July where he insisted on “taking back control” of UK waters and committed to leaving the EU common fisheries policy. According to a Danish newspaper report discussed in the Guardian, Mr Gove reassured Danish fishermen that EU vessels would be allowed continued access since the UK does not have the capacity to catch and process all the fish in British waters.

Forthcoming position papers
The British Government is due to set out its position on issues such as the customs union and the Irish border in the coming weeks, the Guardian reports. This will take the form of a series of papers and will be the first publication of the Government’s position on key issues since January’s Lancaster House speech on the UK’s negotiation strategy.

Ireland

Taoiseach tables three solutions in Belfast
In his address at Queens University Belfast, An Taoiseach Leo Varadkar set out three “practical solutions” to how the effects of the UK’s exit from the EU could be softened. The Irish Times reported that these were i) an EU-UK customs union, not unlike that in operation between the EU and Turkey; ii) that the UK join the European Free Trade Association (EFTA) of which Norway and Switzerland are members; and iii) a transition period to work out Brexit problems. Mr Varadkar said that given the lack of solutions proposed by advocates of a hard Brexit during the 14 months since the referendum, it was thus appropriate for Ireland to suggest solutions that would work in Ireland’s interest.

Ireland not going to design border for ‘Brexiters’
In a media briefing on 28 July, Taoiseach Leo Varadkar emphasised that it was up to those wishing a hard UK exit from the EU to propose solutions for a border on the island of Ireland. Mr Varadkar said it was up to the ‘Brexiters’ to “say what it is, say how it would work and first of all convince their own people, their own voters that this is actually a good idea”. He also stressed that the Irish Government’s position is that there should not be an economic border between Northern Ireland. The DUP took exception to suggestions that the Government would favour the Irish Sea becoming the new border. However, these suggestions were later dismissed by the Government and the Taoiseach himself, permitting “useful and forthright” dialogue to take place between DUP leader Arlene Foster and Mr Varadkar in a meeting on Saturday 5 August.

Chief Whip requests help from EU post-Brexit
The Government Chief Whip, Joe McHugh, has suggested that the European Investment Bank assists Ireland financially post-Brexit because Ireland “bore the brunt of [...] austerity” following the 2008 financial crisis. Mr McHugh stated that the EU had to help build better connectivity between North and South in physical infrastructure and movement of people. According to the Irish Times, Mr McHugh stated that any slowdown in the movement of people or goods would be unacceptable to citizens both sides of the border.

Surge in international university applications
Irish universities have seen a surge in international applications, which academics believe is due to Brexit and the election of Donald Trump in the United States. The Irish Times reported that the increase was largest in University College Cork (UCC), which saw international (non-EU) applications grow by 40% [on 2016 figures]. University College Dublin (UCD) recorded an increase of 26%. This has prompted fears of pressure on capacity, especially given a drop in Irish applications to the UK, which are down 18%. The Sunday Times uncovered a practice in UK universities where often less qualified fee-paying overseas students were granted “fast-track” admission into degrees ahead of British students. This may become an issue in Ireland should funding not be met.
Economic Insight

Sector Focus: Education

An economic impact analysis published in March 2017 showed education to be worth £25.8 billion to the UK economy. The analysis conducted by Oxford Economics demonstrated that international students supported over 200,000 jobs in university towns and cities across the UK in 2014/15, in addition to paying an estimated £4.8 billion in tuition fees to UK universities. The economic benefits derived not only from spending by international students but also from the spending of their visitors.

International education is thus a lucrative export industry and can have knock-on effects for other industries such as tourism. If graduates work in the country during or after their studies, they contribute to the national exchequer and add to the graduate pool a country can offer businesses and organisations. The question is to what extent will the UK’s exit from the EU disrupt this industry? And, in the face of any disruption, could Ireland benefit by being one of two remaining EU members with English as an official language?

Exporting an English education: is the UK’s loss Ireland’s gain?

Data published in February 2017 by UCAS, the UK higher education application system, showed that EU applicant figures were down 7% on the previous year. The number of UK applicants has also dropped (~5%) but change in non-EU applicant numbers was marginal. However, a recent article in the Irish Times noted significant increases in the number of non-EU students applying to Ireland this academic year, which academics have attributed to Brexit and the election of Donald Trump.

What this appears to indicate is that international applicants are now considering Ireland where they may not have done so before. There is as yet no evidence to suggest that students are choosing Ireland over the UK – the number of non-EU applications to the UK has not fallen in 2017 and data on acceptance rates are not yet available. However, education is not a zero-sum game: for Irish universities to benefit from increased international students, it is not necessary for the UK to lose out. Indeed, it is likely that the opposite is true: the fact that there is a significant level of research collaboration between UK and Irish institutions would indicate that, like with most aspects of Brexit, a good deal for the UK would be in Ireland’s interest.

R&D: the potential loss in collaboration

On the topic of research, the Higher Education Authority (HEA) has warned that given the close academic and research networks between the UK and Ireland, Brexit could mean fewer opportunities for collaboration. Its paper Brexit and Irish Higher Education and Research noted that the UK is Ireland’s largest research partner under Horizon 2020, the EU research and innovation programme. Moreover, it cited evidence that the uncertainty caused by Brexit has already led to some hesitation from researchers in the UK and EU to advance collaborative research projects.

A second problem that may arise from Brexit is a loss in funding for Irish projects, either from changes to the EU budget or from changes to eligibility for UK funding. Irish researchers have in the past been eligible for various UK-based funding programmes, particularly in the area of science. There could also be effects stemming from a potential “hard-border” on the island, which the Royal Irish Academy warned could compromise several EU-funded North-South initiatives.

How to proceed?

The fall in the number of Irish students applying to the UK (down 18%) is perhaps more of a concern to Ireland than to the UK. Due to the high number of students currently in primary and secondary education in Ireland, demand for university places is already expected to grow until at least 2029. If students who would otherwise have gone to the UK for third level education were to pursue higher education in Ireland, this demand would further increase. Given the benefits education can bring to the economy, it would appear that Irish educational institutions should seek to meet this increased demand.

To address this issue, the Government must find a way to solve the existing funding crisis in higher education. This is not only crucial to securing any potential benefits Brexit might bring, but would help Irish HEIs to address potentially higher demand from Irish students. Moreover, given the financial benefits from accepting international students over domestic students in terms of fees, a continued shortfall in funding coupled with increased international demand might incentivise universities to offer more places to international students, to subsidise their research or operational costs. Although a more internationalised student body and education system brings numerous benefits, a lack of places in Irish institutions for eligible Irish students is unlikely to gain popular support.

Finally, additional public funding for research projects may be advisable, especially to make up for any loss in access to UK funding Irish researchers may face in 2019 when the UK leaves. Such a move is also likely to boost Ireland’s attractiveness as an R&D destination for both students and employers.
City Relocations

Destination: Dublin Docklands

Standard Life has repeated its intention to move parts of its operations to Dublin. Speaking to CNBC, Standard Life CEO Keith Skeoch outlined plans to move the asset management firm’s MiFID (Markets in Financial Instruments Directive) company to Ireland. Mr Skeoch said Ireland and Luxembourg were the two clear locations for asset management firms wishing to continue their operations with EU clients.

IDA ‘encouraged’ by relocations

IDA Ireland Chief Executive Martin Shanahan has stated that it has been “encouraging” to see so many “high-profile banks and insurance firms publicly endorse Ireland as their destination of choice” following the UK’s decision to leave the EU. Mr Shanahan said he expected the flow of announcements to continue but noted that for the Irish economy to remain competitive, Ireland would need to prioritise nurturing talent, delivering a pro-business ethos and “maintaining a consistent track record”.

Business & Finance

UK consumer spending continues to fall

July marked the third consecutive month in which consumer spending fell in the UK, according to the payments company Visa, the longest decline in consumer spending in four years. Visa’s managing director for the UK and Ireland Kevin Jenkins told Reuters that the 0.8% real drop compared with July 2016 “provides further evidence that rising prices and stagnant wage growth are squeezing consumers’ pockets”.

UK car sales have fallen for the fourth consecutive month, with July car sales 9.3% lower than July 2016. Although the year began with an increase in car sales, activity has dropped since April. Quoted in the Financial Times, Samuel Tombs of Pantheon Macroeconomics remarked that car sales tend to lag consumer confidence by approximately six months due to the pre-ordering of vehicles. He says it is therefore likely that the recent post-election drop in confidence means that car sales have further to fall.

Irish consumer spending growth fastest since March

In Ireland, however, consumer spending is on the rise. The Visa Irish Consumer Spending Index has recorded an increase of 2.5% on July 2016, up from 1.8% in June. Hotels, restaurants and bars have seen the biggest increase, with a growth of just over 9% year-on-year. Similarly, Recreation and Culture spending grew by 6.7%. In the Irish Times, Philip Konopik, Visa Ireland country manager, remarked that this demonstrated that growth was due to spending in the “experience economy rather than on things.” Face-to-face expenditure was also down while eCommerce spending increased.

Ibec Economic Outlook details Brexit exposure

The August Ibec Economic Outlook stated that agri-food and beverages, accommodation and tourism services, air and freight transport and traditional manufacturing will be the sectors most exposed to Brexit. Moreover, it notes that the exposure to Brexit will be highest in Cavan, Monaghan, Kerry and Longford, with over one in five workers in each county employed in exposed sectors. The areas least exposed to Brexit will be urban areas: Cork City, Galway City, the four Dublin local authority areas and the counties surrounding the capital. The report also noted the impact of a continued volatile sterling-euro exchange rate on the agri-food sector. Ibec noted a dual impact at play from Irish food exports falling and Irish consumer foods being pushed off the shelves by cheaper British imports.