

Brexit watch

Fortnightly briefing on Brexit developments

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Another week, another resignation. Amber Rudd is the fifth resignation of the ten-month old British cabinet. Rudd was a strong advocate of the Prime Minister as her Home Secretary, and openly favoured a soft Brexit. Her removal from cabinet may alter the balance of opinion of cabinet as her replacement, Sajid Javid, has taken a more sceptical view of the customs union post-Brexit.

The development is timely as cabinet works to determine a solution that adequately addresses issues with the Irish border. The UK has committed to preventing any hard infrastructure on the North-South border, however a comprehensive and mutually satisfactory trade deal is needed to ensure the Withdrawal Deal reaches completion. Thus far, the UK's proposals have been described as 'magical thinking' in the EU.

The Prime Minister held her Brexit war cabinet meeting this week, with the future trade relationship at the top of the agenda. These meetings allow Mrs May to get a sense of how a proposal might be received in the UK, before it is suggested to the EU- hence why the mix of views among cabinet is significant.

Rumours of the latest iteration have Eurosceptics [concerned](#). It has been reported that the Prime Minister is leaning towards a hybrid model whereby an EU/UK customs border would not be needed. The UK Government concedes it would be 'challenging to implement' and HM Revenue & Customs says it could take up to five years to fully develop.

The customs partnership would essentially keep the UK in the single market and require it to collect tariffs from third countries on the EU's behalf. In an [effort to sway](#) the Prime Minister away from such an option, 60 pro-leave MPs have sent May a 30 page report opposing such a plan.

The initiative is led by Tory MP Jacob Rees-Mogg who says 'there is no question of this being an ultimatum.' However, with more upheaval in cabinet this week, the strength of Prime Minister May's premiership is not at its zenith. A message that her plan would 'festoon the entire economy with burdensome controls', from a compelling number of MPs from whom she needs support, could make an impact.



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1 Political developments

Ireland

Committee recommends MFF include funding for Brexit impacts

The Oireachtas Committee on Budgetary Oversight released a report this week on the [Multiannual Financial Framework](#) (MFF) which 'provides a stable basis from implementing the [EU] budget.' The current MFF runs until 2020. The UK has agreed to meet its financial commitments until this point, after which a gap will be left in the EU budget.

Planning has already begun on the MFF that will run from 2020 onwards so the Oireachtas Committee has studied Ireland's needs over the coming years. One key [recommendation](#) is to include 'funding and financial supports that offer a Brexit initiative to Ireland, in order to counteract the impact of Brexit on the Border region in particular.'

Also of importance is funding for the Common Agricultural Policy (CAP), as the report finds a decrease would have a 'detrimental effect' on the Irish agricultural sector, as well as the economy as a whole.

Coming out in force to get border sorted

The [All-Island Civic Dialogue on Brexit](#) was held in Dundalk this week, with Taoiseach Varadkar and Michel Barnier, EU Chief Negotiator, in attendance. The Conference gave them the chance to expand on their expectations of the UK as the June EU Summit nears.

Mr Barnier supported the Taoiseach in [calling for progress](#) on wording of the backstop agreement by June. In contrast, the UK's Brexit Secretary, David Davis, sees the June summit as an 'artificial deadline' with the key goal being agreement on the Withdrawal Bill by the end of October.

Mr Varadkar [refuted](#) accusations that Brexit was being used as a means to achieve a united Ireland. He affirmed 'there is no question of Ireland or the European Union being interested in a land grab in Northern Ireland... there will be no change to the constitutional status of Northern Ireland until such a time as the majority of the people want it.'

New Senator would vote down 'backstop'

A newly elected Senator has [said](#) he is willing to vote down the backstop agreement if it came before him on the floor. Independent unionist, Ian Marshall, was backed by Fine Gael and Sinn Féin despite his political divergences with the latter group, and voted to remain in the EU at the time of the referendum.

Economic Performance

European Union

Available from [EuroStat](#)

- Household income per capita increased by 0.3% in the euro area and 0.7% in EU28 in Q4 2017
- Government debt as a % of GDP fell by 1.4% to 86.7% in Q4 2017 across the euro area
- GDP grew by 0.4% in the euro area and EU28 in Q1 2018. The Y-o-Y change was 2.5% and 2.4% respectively
- The EU unemployment rate in 2017 was 7.6% - a decrease of 1.0 pp on 2016

Great Britain

Available from the [ONS](#)

- Preliminary figures for GDP Q1 2018 showed an increase of 0.1% on the previous quarter. This is compared with 0.4% growth over Q4 2017
- In the three months to Feb 2018, services output increased by 0.4% compared with the three months ending Nov 2017 according to the Index of Services measure
- The total UK trade deficit (goods and services) widened by £0.4 billion to £6.4 billion in the three months to Feb 2018

Recent Statistics

Republic of Ireland

Available from the [CSO](#)

- Seasonally adjusted, the volume of retail sales decreased by 2.2% in the month of March, with an annual decrease of 2.8%
- Annual manufacturing prices decreased by 2.9% in March 2018. There was also a 3.0% annual decrease in the price index for export sales
- Ireland was below the EU28 average for its debt to GDP ratio, after a decrease of 4.0 pp in Q4 2017. The ratio now stands at 68.0%

Northern Ireland

Available from [NISRA](#)

- The unemployment rate in the three months to Feb 2018 was 3.5% according to the Labour Force Survey. The annual decrease in the unemployment rate was 1.8 percentage points
- The Northern Ireland Composite Economic Index results estimate economic activity increased by 0.4% in real terms from Q3 2017 to Q4 2017
- Construction output in Q4 2017 increased by 1.8% compared with Q3 2017 and was 3.6% higher than the same quarter in 2016

1 Political developments

United Kingdom

Fifth cabinet resignation captures political attention

Amber Rudd [stepped down](#) as Home Secretary last weekend, making way for Sajid Javid - former Communities Secretary. Ms Rudd was forced to resign after failing to explain her role in the mistreatment of the Windrush generation migrants.

Rudd was a strong advocate for remain at the time of the referendum, and subsequently pushed for a soft Brexit. In contrast, Mr Javid, while campaigning for remain at the time, has been more opposed to a customs union option than his predecessor since. Managing the mix of Brexit views in cabinet is important, particularly as the British Government works towards determining its future relationship with the EU.

While Javid moves the balance of opinion marginally closer to favouring a hard Brexit, his successor at the Ministry for Housing and Communities will likely offset some of the change. [James Brokenshire](#) returns as one of the Prime Minister's key allies after ill-health. He is expected to back Mrs May's strategy over the course of phase two, and as the Withdrawal Bill makes its way through the legislative process.

House of Lords again votes against the Government on Withdrawal Bill

The House of Lords continues to [push back](#) against the Government's Withdrawal Bill draft. Following a string of defeats over the past two weeks, the House has supported a further three amendments in direct opposition with the Government's public stance.

On Monday, a 91 peer majority passed a Labour amendment to send Ministers back to negotiate with the EU, if MPs vote down the final Brexit deal. An amendment was also passed to impose parliamentary approval for the negotiating mandate in phase two.

Strong [criticism](#) has come from some cabinet members as a result, with International Trade Secretary Liam Fox responding: 'I think there's a very big debate now about whether the unelected house [of Lords] can actually thwart the view of the British electorate in a referendum' and accused peers of using the amendment process 'as a mechanism for overturning the referendum.'

The vote is aimed at preventing a 'no-deal' Brexit. Enabling diplomats to continue negotiating after the 'final' deal is determined extends the prospect that some form of a deal will be reached - even if this occurs during the transition.

European Union and Northern Ireland

Barnier uses the All-Island Civic Dialogue to focus on the EU's red line on the border

As the All-Island Civic Dialogue brought politicians together from Ireland, the EU and Northern Ireland this week, political updates for the EU and NI are largely similar for this issue.

It seems even within the EU camp, there is significant focus on the Irish border. Chief Negotiator of the Commission, Michel Barnier, spent Monday and Tuesday touring the island and reiterated the EU's position of avoiding a hard border between North and South.

Mr Barnier warned of 'a real risk' that a Withdrawal Deal will not be achieved, also emphasising the need to be prepared 'for all options'. The EU Chief Negotiator called for rapid agreement on the 'scope of the [regulatory] alignment' post-Brexit by June at the latest. His comments fall in line with public calls from both the Taoiseach and Táinaiste over recent weeks.

In contrast, the UK's Brexit Secretary, David Davis, sees the June summit as an 'artificial deadline' with the key goal being agreement on the Withdrawal Bill by the end of October.

Beyond this, he [clarified](#) that 'the backstop is not there to change the UK's red lines. It is there because of the UK's red lines.' The EU is also supporting the Irish Government in its request for progress on the backstop agreement by the EU summit this coming June.

DUP speak up against Barnier

Mr Barnier has received harsh criticism from DUP leader Arlene Foster who said he is 'not an honest broker' with respect to his understanding of the unionist position in Northern Ireland.

The prospect of a fall back scenario whereby full regulatory alignment is maintained on the island is in fierce opposition to the DUP stance, with MP Nigel Dodds [warning](#) the party was prepared to let the Government collapse on this issue. Mr Dodds is the DUP leader in Westminster and explained that such a scenario would be a 'red line' as it is opposed to any solution whereby Northern Ireland is treated differently from the rest of the UK.

There has been a lot of discussion on red lines recently, as negotiators work to find a deal that satisfies all concerned. It is already accepted that a significant level of compromise will be needed to see the Withdrawal Deal through. The question is; will the level of compromise expected from the UK be disproportionate? This week did prove that the EU would appear unlikely to offer new suggestions to resolve the border issue, with responsibility residing with the UK.

2 Economic Updates

Costs and Benefits: Learning from experience

The Institute of International and European Affairs held its conference 'Beyond Brexit: Ireland and the Future of Europe' last week. In attendance was former Taoisigh John Bruton, Bertie Ahern and Brian Cowen who discussed 'Brexit, Ireland and the Good Friday Agreement'.

A second panel of former EU diplomats, Commission President José Manuel Barroso and Commission Secretary General Catherine Day spoke alongside pro-remain MP Dominic Grieve on the future of the EU without the UK.

There is no precedent for Brexit, therefore it is impossible to determine the costs and benefits to each stakeholder - an economist's fear. However, previous experience of difficult negotiations such as the Good Friday Agreement can play a role informing expectations and strategy if policy makers are open to looking back.

The conference gave former leaders an opportunity to share knowledge and experience to inform Ireland's strategy, in an effort to minimise the cost of Brexit.

Former leaders warn of eleventh hour risks

John Bruton verbalised what some have chosen to deny: it is impossible to avoid hard infrastructure between North and South when it requires part of the EU's external border to go unmonitored. The red lines laid down by the UK and EU make it hard to see how either side could be fully satisfied as of yet.

Bertie Ahern [says](#) Ireland must be prepared for the way EU negotiations are carried out. Referring to his own experience, he said decisions are often taken at the eleventh hour, so pressed the need for progress on the backstop by June. Otherwise, 'when it comes to the evil hour' Ireland will be asked to compromise. 'That's always how it works. I don't think [the Irish Government] should find themselves having a Halloween party at two o'clock in the morning' he advised.

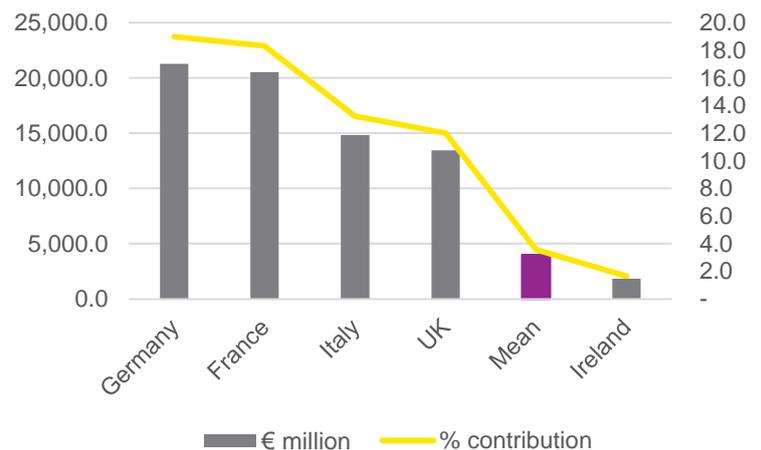
A clear perspective

Former European Commission President José Manuel Barroso also warned against overestimating the importance of Brexit outside of the UK and Ireland. He noted that our European counterparts are not nearly as occupied with the situation as we are at present.

A good understanding of bargaining power will be helpful in making progress from an Irish perspective. For example, the European Commission's website lists its top ten priorities as ranging from 'democratic change' to 'being a stronger global leader'. Brexit does not make the list.

Ireland is one of the EU's star pupils right now, with the fastest 2017 GDP growth rate among the EU28, having recovered from a bailout. However, Ireland's contribution to the EU budget is relatively small - in contrast to the UK which is one of the largest net contributors in this area. Figure 1 below illustrates the total national contribution to EU expenditure for a number of EU countries in 2016. As can be observed, Ireland's contribution is relatively modest at 1.6 per cent. From a Brexit perspective, this could be worth bearing in mind at home when considering Ireland's relative importance.

Figure 1: Total National Contribution to EU by Individual Member States - 2016



Source: [European Commission](#)

Lessons Learnt?

Developing ties with the UK

While perspective is necessary in the short term as negotiations are underway, looking to the future, protecting and developing Ireland's relations with the UK will play a key part in Ireland's success.

A lack of understanding between the British and Irish Governments could pose problems, not only as Brexit is carried out, but as the UK and Ireland continue to trade and co-operate with a shared border into the future.

All three Taoisigh emphasised the historical importance of EU summits for civil servants to meet and foster relationships. Once the UK leaves the EU in 2019, this forum will no longer be attended by British diplomats, and an alternative means of promoting communication will have to be found. Perhaps this is another task to add to the list.

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