

Brexit Watch

Fortnightly briefing on
Brexit developments

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Seán Golden
Economist | EY-DKM
Economic Advisory



Kathy Stout
Economist | EY-DKM
Economic Advisory

Theresa May's campaign to reverse 15 amendments to the Withdrawal Bill is off to a strong start, if you discount the extent to which she had to compromise with her own party members. Changes made to the draft legislation in the House of Lords added strategies favouring a soft Brexit. Both Labour and Conservative peers disregarded party policy and the respective whips during this process - the Prime Minister now seeks to undo this in the Commons.

The 'meaningful vote' amendment gave Parliament a veto on the final Brexit deal but was not adopted in the dramatic vote in the Commons on Tuesday. Following a shock ministerial resignation that morning, it looked increasingly as though the pro-Europe wing of the Conservatives would defy the Prime Minister and provide her first parliamentary loss. Reports of Chief Whips running around frantically did little to quell concern.

In a genuinely unexpected development, last minute compromises to MPs seeking a soft-Brexit secured a win, with the amendment eventually being opposed by 324 votes to 298 with only two Conservatives voting against the Government. The full extent of concessions is unknown but ardent Brexiters have worked hard to claim the vote as a win, in spite of reports that there is now no option for the Government to abandon negotiations or end in a no deal scenario.

The process highlighted the fact that pro-Europe voices in Parliament are gaining prominence, and that May's fragile majority will significantly threaten her strategy for the Bill as the remainder of the amendments are brought to the Commons. This is particularly true when she does not hold full support within her own party.

Unfortunately for Ireland, most all of the UK's energy is being used internally instead of negotiating with the EU. As a consequence, the Taoiseach has now said that a deal on the backstop will not be agreed by June - as has been called for over recent months.

The risk remains that the 'backstop' agreement - which is meant to act as a fall back if no better trade deal is achieved - will become the 'frontstop.' So while updates are many, measurable developments are few.

1 Political developments

Ireland

Taoiseach no longer expects backstop deal by June

Taoiseach Leo Varadkar has [said](#) that progress on the backstop is not likely until after the Withdrawal Deal is agreed, that is, in October. This follows almost three months of public assertion by both the Irish Government and the EU that substantial progress would be needed by June for negotiations to continue. This has now changed, with the Taoiseach encouraging talks to continue in spite of previous warnings.

Mr Varadkar responded to claims that the development signals Irish concession, saying: 'certainly our position hasn't softened. I'm happy to correct that if that's the impression I gave in any way.'

He has also [insisted](#) that even if the UK leaves negotiations with no deal, a border would still not be erected between the North and South of the island. It remains difficult to see how this arrangement could arise as Ireland would be obliged to collect WTO tariffs on all goods crossing the border, requiring some form of customs infrastructure.

Enda Kenny harshly criticises Theresa May's Brexit strategy

This week former Taoiseach Enda Kenny was honoured as European of the Year, and used his acceptance speech as an opportunity to publically [criticise](#) Prime Minister Theresa May. Using some of his strongest words since leaving the leadership position, he described the British Cabinet as being 'driven by internal dissent, [lacking] credibility on its most serious challenge in decades.'

Mr Kenny believes the threat of a future Labour Government is acting as a disincentive to British businesses that would otherwise speak out more loudly against the Conservatives. He also admitted that while he was not confident progress would be achieved by June, parties should 'definitely try.'

Simon Coveney says UK still negotiating internally

Tánaiste Simon Coveney once again [highlighted](#) the issue of the British Government negotiating amongst itself, as opposed to with the European Union. Speaking to the Irish Times in Munich, Mr Coveney also added that 'no one is expecting the backstop to be concluded at the end of June but these things don't get any easier with time.'

With focus in Brussels also diverted to Spain and Italy, progress seems improbable in the short term. Brexit is more likely to get both sides undivided attention at certain critical points along the way, suggesting eleventh hour deals, sadly, look increasingly likely.

Economic Performance

European Union

Available from [EuroStat](#)

- GDP grew by 0.4% QoQ in Q1 2018 in the euro area and EU28
- Annual price increases to May 2018 stood at 1.9% across the euro area - up from 1.2% the month before
- The volume of retail trade in Apr 2018 is up 0.1% MoM across the euro area, and by 0.4% across the EU28
- Industrial production remained stable MoM to Apr 2018 across the euro area but increased by 0.1% over the EU28

Great Britain

Available from the [ONS](#)

- The employment rate reached 75.6% in the three month on three month period to Apr 2018 – the joint highest level since 1971. The unemployment rate fell to 4.2% over the same period, joint lowest since 1975
- Construction output fell by 3.4% in the three months to Apr 2018 marking the biggest contraction since Aug 2012
- The trade deficit increased by £1.9bn to £9.7bn in the three months to Apr 2018. This is mainly attributed to a fall in exports

Recent Statistics

Republic of Ireland

Available from the [CSO](#)

- Prices on average, as measured by the CPI, were 0.4% higher in May compared with May 2017
- On a seasonally adjusted basis the Live Register total recorded a monthly decrease of 4,100 (-1.8%) in May 2018, reducing the seasonally adjusted total to 224,900
- The volume of output in building and construction increased by 7.4% in Q1 2018 when compared with Q4 2017
- Production for Manufacturing Industries in Apr 2018 was 9.2% higher than in Mar 2018

Northern Ireland

Available from [NISRA](#)

- The Labour Force Survey for the Feb – Apr period showed an increase in the unemployment rate by 0.2pps to 3.3%, however this still represents a YoY decrease in unemployment
- The employment rate decreased over Q1 0.2pps and increased over the year 0.9pps to 69.7%
- Businesses reported an increase in employee jobs over the quarter and year, to a series high of 763,440 jobs in Mar 2018

1 Political developments

United Kingdom

Theresa May avoids defeat in the Commons

Tuesday evening proved crucial for Theresa May when MPs voted by a majority of 324 to 298 against an amendment that would allow Parliament a veto vote on the final Brexit deal. The 'meaningful vote' amendment had been added in the House of Lords, and directly contradicted Mrs May's vision for the legislation.

Last minute negotiations between the Cabinet and pro-Europe, Tory 'rebels' were needed to ensure Tuesday's win, which significantly decreases the chance of a no-deal outcome. However, in securing the votes, the Prime Minister conceded to bring a 'compromise amendment', similar to that suggested by MP Dominic Grieve, to the floor to satisfy sceptics.

Prominent 'rebel' Nicky Morgan subsequently [threatened](#) to use the House of Lords to further alter the bill in favour of a soft Brexit, if Mrs May did not hold true on her promise. The full extent of the deal cannot be confirmed.

Amendment to 'bridge the gap' between Lords and Government tabled quickly

Prior to the vote, Conservative MP Dominic Grieve [put forward](#) an amendment to the Withdrawal Bill at the eleventh hour on Monday. It reportedly provided the basis for the compromise made by the Government to pro-EU MPs on Tuesday.

The former Attorney General recommended that Ministers retain control of negotiations until November, with Parliament taking over all aspects - including further deal making - if an agreement is not reached with the EU by February 2019.

In essence, the amendment sought to 'bridge the gap' between the House of Lords 'meaningful vote' proposal, and the Government's desire to limit Parliament's influence on the process. Downing Street quickly discounted this and said it will not put it to a vote. Mr Grieve's suggestions were rehashed in negotiations the following evening.

Cabinet Minister resigns in protest of Brexit track

While Tuesday evening closed with relief for the Prime Minister, the morning started with a knock to her authority. Justice Minister Phillip Lee resigned his position ahead of the vote, in protest of Theresa May's Brexit plan. Mr Lee originally assumed his role in July 2016 and has survived various Cabinet reshuffles and scandals in the intervening period.

However, the recent trajectory of Brexit negotiations, as determined by his Prime Minister, motivated the MP to step down. Mr Lee cited a personal need to 'better speak up for [his] constituents and country over how Brexit is currently being delivered.' In an [official statement](#), he also stated that '[the path to Brexit] should go to the people... to seek their confirmation.'

This is the first time a member of Theresa May's Government has called for a referendum on the final deal. The pro-Europe group within the Conservative Party is gaining momentum with members who are willing to publically speak out against Theresa May's strategy.

European Union

Leading MEP accuses Brexiters of colluding with Russia to damage European unity

The European Parliament's Brexit representative, Guy Verhofstadt has [accused](#) leading Brexiters such as Nigel Farage and Arron Banks of colluding with Russia 'to make Brexit happen.' Mr Farage called the claim 'a baseless lie.'

The Belgian MEP made the comments during a parliamentary debate on the future of Europe and was speaking on the broader issue of European populism. While he said he mourned the loss of the UK from the EU, he identified the silver lining as '[making] the other 27 member states even more aware of the importance of unity and working together.'

Northern Ireland

SDLP further pushes Labour party to support EEA outcome

Labour's equivalent party in Northern Ireland, the SDLP, has again [written](#) to Jeremy Corbyn's MPs asking to keep the UK in the EEA. In light of upcoming votes in the Commons, leader Colum Eastwood says 'it is the view of the SDLP that several amendments contain opportunities to protect the island of Ireland that should not be missed.'

Mr Corbyn is opposed to this strategy, instead looking for a 'more ambitious' deal that would retain access to the single market, without relegating control of immigration to the EU.

The party whip will be applied in the upcoming votes but is expected to be ignored in the Commons as it was in the Lords. Up to 70 Labour MPs are expected to support a motion for EEA membership, in direct contrast with party policy.

2 Economic Updates

Brexit and Third Level Education in the Republic of Ireland

Ireland will soon become one of the few primarily English speaking countries within the EU, and while focus rests heavily on goods and trade, less has been discussed about potential threats and opportunities to the Republic of Ireland (RoI) third level sector.

Threats come in the form of increased cost to the RoI exchequer for students choosing to remain in RoI, while opportunity comes from international students wanting to study and live in an English speaking country within the EU. Of course there are benefits to keeping RoI students at home e.g. increased spending within the RoI economy and a targeted approach to educating students in college for the observable future skills needs within RoI.

The number of RoI students applying to study in the UK declined by 18 per cent from 2016 to 2017. Whether or not this was directly attributable to the Brexit decision is open to debate. If it was the case that Irish students have to pay 'non-EU' or 'international' student fees going forward, the costs of obtaining a third level degree in the UK would dramatically increase. However, in May 2018, UK Minister [Sam Gyimah](#) **proposed** that Irish students would not have to pay 'international' student fees, and would still have access to flexible government loans after Brexit. The language is unclear as to whether this refers to existing RoI students in the UK, or both current and future RoI students.

The financial implication of removing choice

In some ways, RoI students choosing to study in the UK could release potential pressure on the RoI third level sector. For the academic year 2016/2017 there were 10,070 RoI students (undergraduate and postgraduate) studying in the UK.

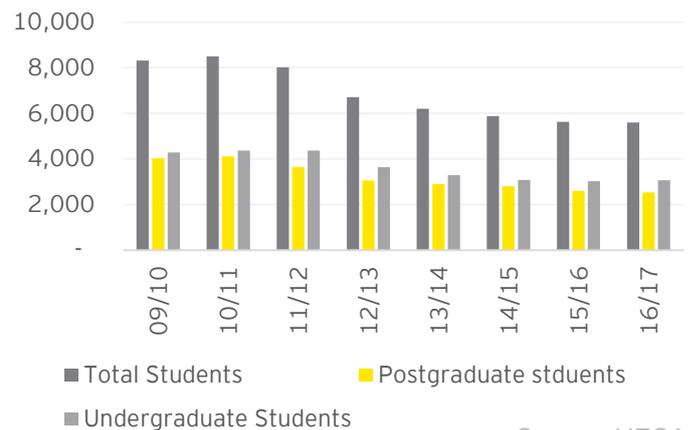
Using 2016 figures, if the number of RoI undergraduate students studying in England were to have remained at home, the additional exchequer cost would be approximately €26.7m annually. This represents a 1.7 per cent increase on the allocated funding for the HE sector in [Budget 2018](#). In the short term it is only a very marginal increase in funding required.

The [Higher Education Authority](#) calculate the average cost to the Irish state for a third level student at €10,379. Factor in the yearly student contribution of €3,000 with only 52 per cent of students actually paying this figure and the Department of Education having to fund the remaining €7,379. The final additional funding would be approximately €26.7m* annually providing numbers remained constant. This is before maintenance grants for living expenses are taken into consideration which would increase the

funding required. The total education sector budget in 2018 surpassed €10bn for the first time. In isolation, increased numbers of students choosing to remain in Ireland, due to being priced out of the English system, is unlikely to have a substantial effect on funding required for the sector. However, the situation is not without additional future funding requirements. With [demographic projections](#) for third level expected to increase over time, this could potentially have upward pressure on funding required. As well as an expected future increase in demand, there is a significant problem already with student [housing and accommodation](#) that would be exacerbated with additional students.

- 48% of 3,025 = 1,452. 1,452*€10,379 = €15.1m.
- 52% of 3,025 = 1,573. 1,573*(€10,379-€3,000)= €11.6m.
- Total = €15.1m + €11.6m = €26.7m

Figure 1: No. of RoI students studying in England



Source: HESA

Figure 1 shows that the number of RoI undergraduate students studying in England has decreased slowly since 2009, falling 28 per cent from 2009 to 2016. From 2015 to 2016 there was a 1 per cent increase in the amount of RoI undergraduate students studying in England. Therefore, it appears to be a sector in decline before the Brexit vote was even cast.

Ireland still has strong potential to attract international students through the quality of its institutions, and by becoming one of the few English speaking countries in the EU. This will bolster the finances of the individual third level institutions (as opposed to the Department of Education) as international students, that is non-EU students, pay full fees. Going forward, this is an area where Ireland could improve its marketability. Ireland could also attract world class academic staff, with EU nationality, currently working in UK based [universities](#) including Irish academics looking to return.

There are already strong links between Irish and UK third level institutions through [Horizon 2020](#), however, Ireland now has the opportunity to be at the heart of [academic research](#) within the EU.

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Ernst & Young, Harcourt Centre, Harcourt Street, Dublin 2, Ireland.

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Contact us



Professor Neil Gibson

Chief Economist | EY-DKM Economic Advisory

neil.gibson1@uk.ey.com

+44 28 9044 1700



Kathy Stout

Economist | EY-DKM Economic Advisory

kathy.stout@ie.ey.com

+353 1 475 0555



Seán Golden

Economist | EY-DKM Economic Advisory

sean.golden@ie.ey.com

+ 353 1 221 1567



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