



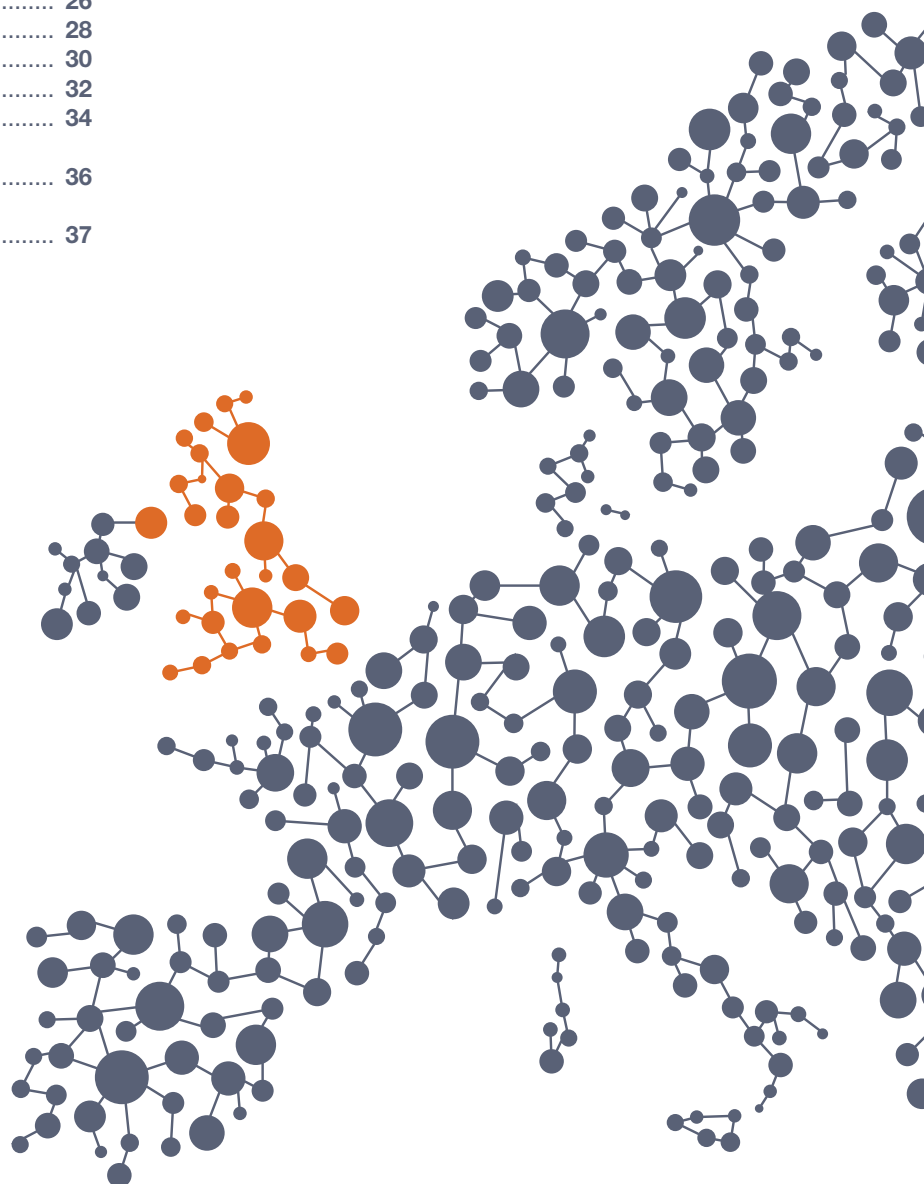
# Brexit: challenges with solutions

Priorities of Irish  
business in EU-UK  
negotiations



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# About Ibec



**Ibec is the national voice of business in Ireland. The organisation and its sector associations, work with government and policy makers nationally and internationally, to shape business conditions and drive economic growth. Ibec's strength lies in its diversity. We offer our members a range of professional services and training on human resource management, occupational health and safety, employee relations and employment law.**

# Introduction from Danny McCoy

**The departure of the United Kingdom from the European Union presents an unprecedented and profoundly unwelcome challenge to the Europe we know.**

**F**or Ireland, the relationship with our closest neighbour; ally; and, of course, competitor is set to change fundamentally. This presents numerous and very serious challenges to the economy as a whole and the individual businesses affected. Close economic, political, cultural and historical links with the UK mean that Ireland is uniquely exposed to the discord and disruption of Brexit. The land border with Northern Ireland, and the need to safeguard the Peace Process, present additional complex challenges. It is crucial that these issues are fully understood and reflected in the Brexit process and outcome.

This paper sets out the position and priorities of Irish business on a number of key concerns. With a particular focus on the future EU-UK relationship, it identifies some of the numerous challenges Brexit negotiations present and identifies practical ways that these can be overcome. It does not, however, cover the wide range of additional domestic policy actions that need to be taken to off-set Brexit risks.

The closest possible EU-UK economic and trading relationship into the future is in everyone's interest. A new free trade agreement should be as broad, comprehensive and as ambitious as possible, covering both goods and services. However, a deal must not undermine the coherence and integrity of the EU Single Market and must ensure fair competition.

A significant gap exists between stated UK objectives and what is realistically possible within the parameters of the current EU negotiating guidelines. This gap will need to narrow if meaningful progress is to be made. Political will, pragmatism and a spirit of cooperation is required. A fractious, disruptive divorce is in no one's interest and must be avoided.

In parallel to Brexit talks, Ireland and other remaining member states must seize the opportunity to reinvigorate their commitment to a stronger, more prosperous EU, which further develops the Single Market and international trade, and enshrines pro-jobs, pro-growth conditions at the very heart of decision-making.

Ibec represents an open, dynamic and pro-European business community of deep substance and diversity. Together with our member companies, we look forward to working with government, other member states, the EU institutions and the UK to achieve a mutually beneficial outcome.



**Danny McCoy**  
Ibec CEO





# The EU and UK have formally recognised the need to address Ireland's unique Brexit challenges

"The Union is committed to continuing to support peace, stability and reconciliation on the island of Ireland. Nothing in the Agreement should undermine the objectives and commitments set out in the Good Friday Agreement in all its parts and its related implementing agreements; the unique circumstances and challenges on the island of Ireland will require flexible and imaginative solutions. Negotiations should in particular aim to avoid the creation of a hard border on the island of Ireland, while respecting the integrity of the Union legal order. Full account should be taken of the fact that Irish citizens residing in Northern Ireland will continue to enjoy rights as EU citizens. Existing bilateral agreements and arrangements between Ireland and the United Kingdom, such as the Common Travel Area, which are in conformity with EU law, should be recognised. The Agreement should also address issues arising from Ireland's unique geographic situation, including transit of goods (to and from Ireland via the United Kingdom). These issues will be addressed in line with the approach established by the European Council guidelines."

**Council of the European Union,  
Brexit negotiation directives,  
22 May 2017**

"Brexit poses unprecedented political, economic and diplomatic challenges for Ireland.....Brexit presents challenges to our peace, and challenges to our prosperity.... Our headline priorities are clear: minimising the impact on our trade and economy, protecting the Peace Process and the Good Friday Agreement, maintaining the Common Travel Area with the UK, and securing Ireland's future in a strong European Union. All of these underpin the most fundamental objective of all – ensuring the continued well-being of our citizens."

**Ireland and the negotiations  
on the UK's withdrawal  
from the European Union –  
The Government's Approach**

"In particular, we must pay attention to the UK's unique relationship with the Republic of Ireland and the importance of the peace process in Northern Ireland. The Republic of Ireland is the only EU member state with a land border with the United Kingdom. We want to avoid a return to a hard border between our two countries, to be able to maintain the Common Travel Area between us, and to make sure that the UK's withdrawal from the EU does not harm the Republic of Ireland. We also have an important responsibility to make sure that nothing is done to jeopardise the Peace Process in Northern Ireland, and to continue to uphold the Belfast (Good Friday) Agreement."

**UK Prime Minister  
Theresa May's letter to  
European Council President  
Donald Tusk triggering Brexit  
process, 29 March 2017**



# Guiding principles

## 1. A smooth exit

**An orderly withdrawal of the UK from the EU, which includes a fair financial settlement and a comprehensive agreement to secure the rights of EU citizens in the UK, and UK citizens in the EU, is vital.** This phase of negotiations should also establish a clear framework to protect the Good Friday Agreement and avoid a hard border on the island of Ireland. Negotiations on exit terms need to be progressed as quickly as possible, so talks can begin on the future relationship.

## 2. Comprehensive transitional arrangements

**Any EU-UK deal must include comprehensive transitional arrangements to avoid a precarious “cliff edge” scenario and allow business plenty of time to prepare and adapt to a new trading relationship.** Continuity with existing arrangements should be maintained until the point where a new relationship takes effect. A temporary, targeted EU state aid framework will be required to help companies trade through any period of adjustment.

## 3. The closest possible relationship

**Any EU-UK deal must facilitate the closest possible, tariff-free economic and trading relationship between the EU and UK into the future.** An EU-UK free trade agreement should be as broad, comprehensive and as ambitious as possible, covering both goods and services. However, a deal must not undermine the coherence and integrity of the Single Market. Clear, legally binding and enforceable provisions will be needed to ensure fair competition and resolve disputes; and regulatory divergence must be avoided or kept to an absolute minimum.

## 4. Unique Irish challenges addressed

**Any EU-UK deal must recognise the unique economic and political challenges that Brexit presents to Ireland, and put in place a range of specific measures to address these.** This should include provisions on travel and labour market rights, while also addressing Ireland's trade exposure, and the challenges presented by the land border with Northern Ireland and the transit of goods through the UK to EU markets. Specific measures will also be needed to ensure the future development of the all island economy is not hampered in any way.

## 5. A prosperous and competitive future EU

**How the EU works and how member states cooperate post-Brexit will have a defining influence on our future well-being and prosperity.** Reform of the EU, its priorities and its institutions must ensure we stay flexible and competitive. We need more integration across a range of areas, but member states also need to retain the flexibility in key policy areas, such as tax, to respond to varying economic circumstances and shape their business offering accordingly. Greater flexibility is needed on the application of EU fiscal rules to facilitate productive investment in vital infrastructure projects.



# Ireland's European journey and EU future

## Ireland's economic story is one of rapid transformation

**F**or much of the last century Ireland was an economically poor and insular country. However, a series of economic and political decisions, have supported business and market development, and transformed it from being a peripheral under-achiever, to one of the world's richest and most globalised economies. Ireland is now politically and economically at the very heart of modern Europe, with far-reaching global connections. Ireland's EU membership is, and will remain, central to this success.

From the 1950s onward Ireland opened up to the world. Beginning in 1949 with the formation of the country's inward investment agency, the Industrial Development Authority (IDA); to EU membership in 1973; and to the OECD's Corporation Taxation reform process today: Ireland has embraced the global economy.

This dramatic shift is captured in Ireland's trade statistics. The export of goods and services as a proportion of GDP rose from only 24% in 1965 to 124% in 2015. By this measure Ireland was the fifth most intensive exporter of its goods and services in the world in 2015.

The complexity and scope of Ireland's indigenous and multinational enterprise base has developed significantly over recent decades. Ireland has evolved from a country which sold mostly primary unprocessed agricultural products along with low value-added manufacturing, to a high-tech manufacturing hub. These include manufacturing sectors like food and drink; biopharmaceuticals; information technology; and medical devices, as well as being a major exporter of services.

Figure 1: GDP per capita 1950 to 2016

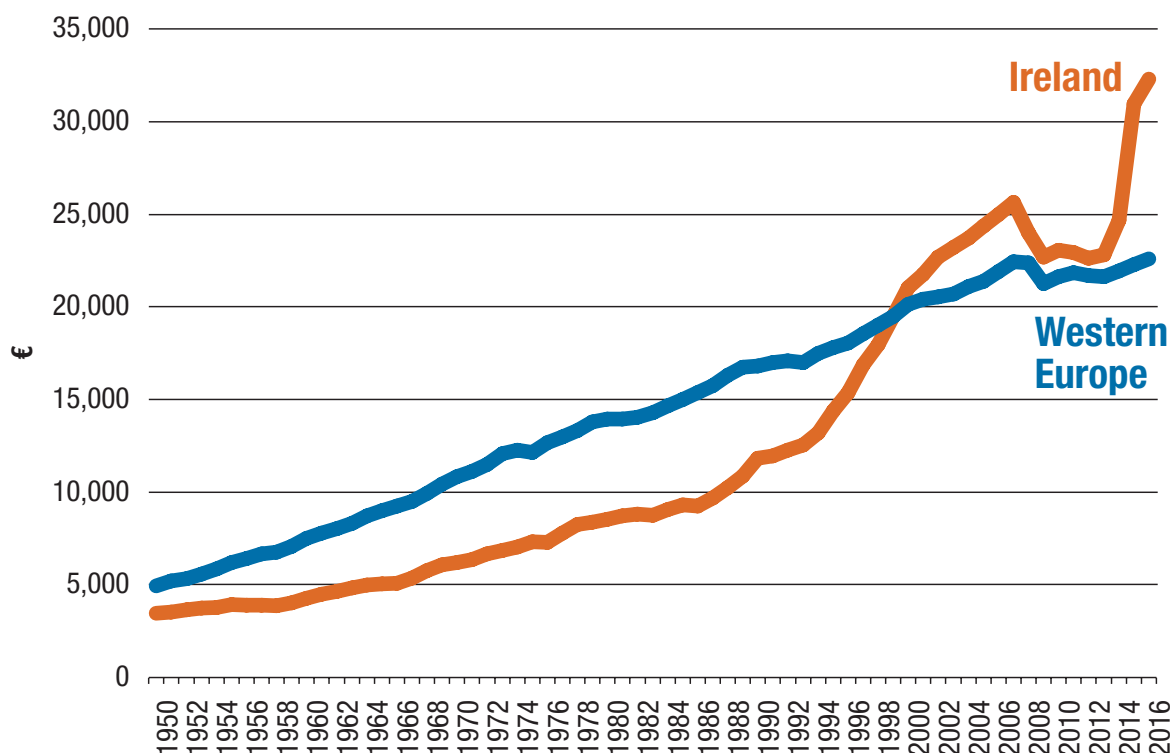
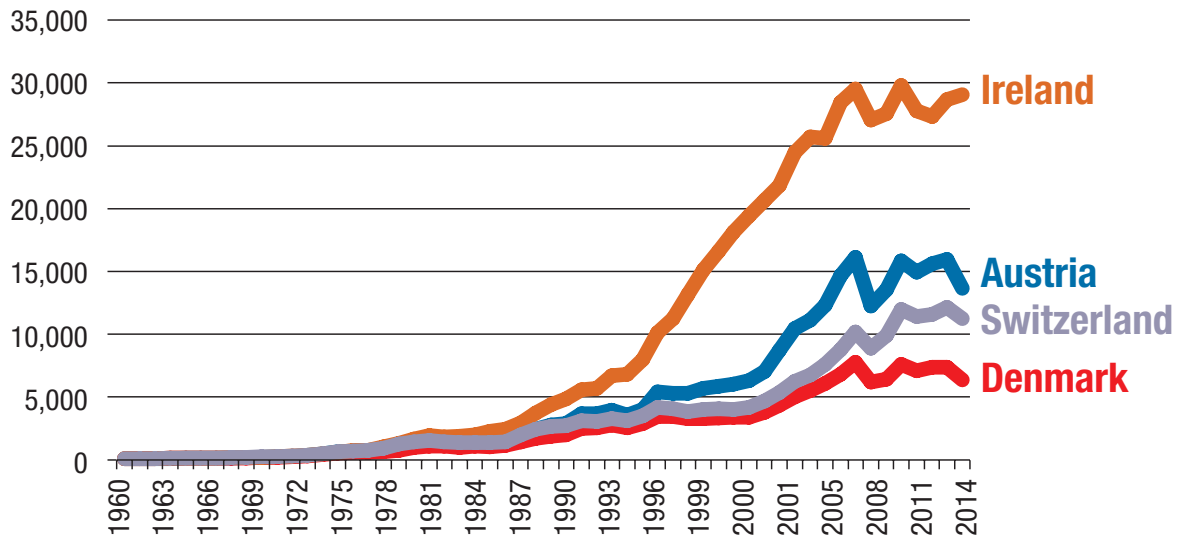




Figure 2: Exports from Ireland and other OECD countries (Index:1970 = 100)



### EU membership is central to Irish success

Membership of the EU and the Single Market has been a central and vital part of Ireland's growth story. It has provided a platform to develop a skilled and flexible workforce; an attractive, fair and competitive tax regime; and has provided easy access to mobile talent and European export markets.

In 1972, 60% of goods exports from the Republic went to the UK, while the rest of the EU only accounted for 17%. This changed dramatically over the years and the EU is now a key destination for our goods exports, accounting for 40%. The EU accounts for 35% of Irish services exports.

Ireland has benefited enormously from an inflow of EU migrants. The population grew by 21% in the past 15 years, the second fastest rate after Luxembourg of any European country. Ireland has the highest proportion of skilled migrants in the EU.

### Ireland's business model is vulnerable to external shocks

Ireland's competitive and globalised business model comes with many challenges. In the past, our economic growth has been more volatile than other European countries. Since 1980 Ireland's GDP growth has been almost perfectly aligned to world GDP growth. Any slowdown in global growth hits Ireland directly.

A heavy reliance on exports also means that when the euro strengthens relative to the currencies of key trading partners, Ireland is disproportionately affected.

This economic volatility was clearly seen during and after the financial crisis in 2008. Despite being one of the worst affected countries in the EU, Ireland made the quickest recovery and became the fastest growing economy in the EU for three years in a row.

# Brexit and the future of Europe

**The EU without the UK will be a very different place, and Ireland will feel the loss more than others. Across a range of policy areas, including the development of the Single Market and European trade policy, the UK came with a similar perspective and objective as Ireland.**

**T**his changing dynamic within the EU comes at a time when the Union is again, understandably, looking at its future direction. In March 2017, in advance of the 60th anniversary of the Treaty of Rome, the European Commission published a 'White Paper on the Future of Europe'. To prompt debate, it presented five possible future EU scenarios: (1) Carrying on, (2) Nothing but the single market, (3) Those who want more, do more, (4) Doing less more efficiently, and (5) Doing much more together.

European leaders subsequently reaffirmed a commitment to being "big on big issues and small on small ones"—acting only where the EU brings added value, otherwise allowing national or local authorities to govern in areas where they can be more effective. They also supported enhanced cooperation between like-minded member states within the EU framework, aiming to avoid initiatives being blocked by a lack of consensus.

No single future scenario presented by the Commission in their White Paper has the answer or will gain the support of the EU27 member states. The more likely outcome is that a combination of different approaches will be adopted.

## **The Irish business priorities on the future of Europe:**

- **More cooperation where there are clear benefits**  
Ibec will work with EU business partners to find common answers to common challenges, supporting greater cooperation in priority areas with a clear collective benefit and where the EU can deliver added value. This includes areas such as the Single Market, the digital economy and a common trade policy.
- **Less cooperation in other areas**  
Europe must be more efficient and do less in areas where national governments are best placed to act. In areas such as labour market and social legislation, national governments are best placed to tailor policy to domestic needs and political preferences. We need to avoid ill-conceived EU legislation that undermines job creation.
- **A competitive Europe**  
The EU must not undermine the ability of member states to compete and succeed post-Brexit. Irish business will need to retain flexibility and sovereignty on taxation and other policy areas if it is to respond quickly and effectively to changing external events.

# Ireland is uniquely exposed to Brexit

**Ireland's long-standing and deep economic, political, historical, social and cultural links to the UK, and especially with Northern Ireland, means it is uniquely exposed to the disruption of Brexit.**

- **Trade:** Trade links are deep and unique, headline figures do not capture the underlying economic exposure
- **Transit:** The UK is a transit country between Ireland and the European mainland, customs barriers would be particularly disruptive
- **All island economy:** Increased controls and checks at land border with Northern Ireland present unique trade, economic and political risks
- **Free movement:** A shared Ireland-UK labour market means the free movement of employees and visitors is central to how companies operate
- **Consumer market:** A shared Ireland-UK consumer market means many companies are organised on a two islands basis
- **Currency:** Close ties means sterling movement has already resulted in a significant economic shock

## **Irish trade is uniquely exposed to potential Brexit disruption**

Any change in the EU-UK trading relationship, either through the introduction of tariffs or non-tariff barriers, would impact Ireland more than any other EU27 country due to its unique trade and business exposure. The UK accounts for 14% of Irish goods exports, the highest share of any European country and double the exposure of the EU as a whole.

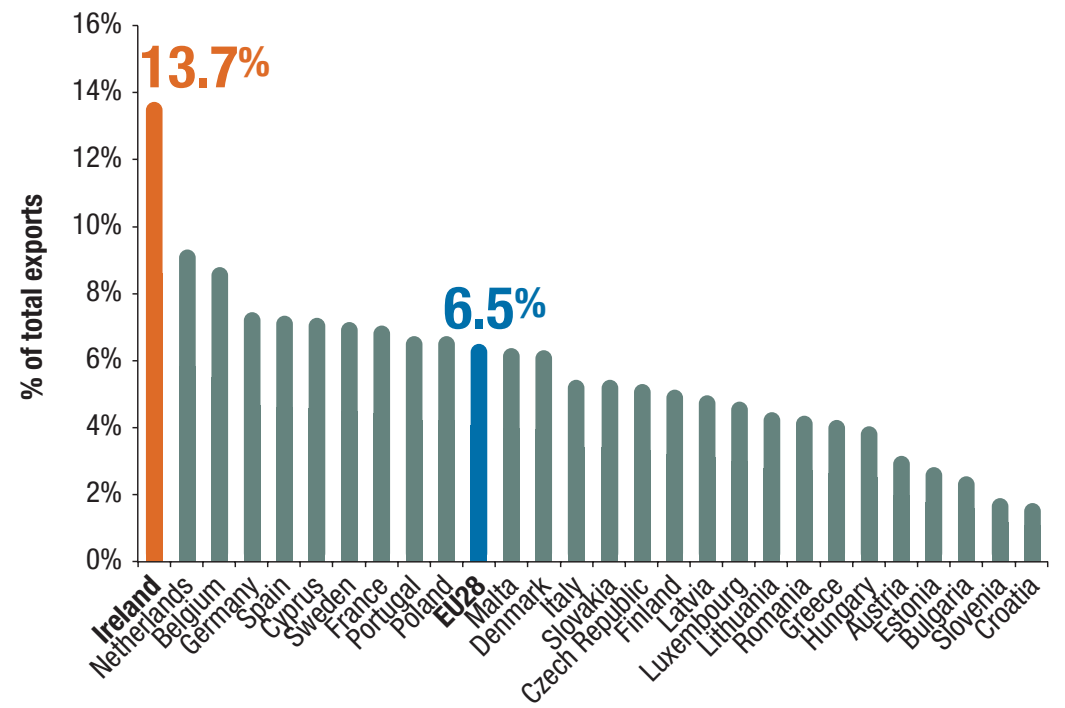
Ireland's exposure to the UK is even higher for imports, as 32% of goods imports come from the UK. This is more than three times the share of the next highest country, and much higher than the EU average of only 4%. If tariffs were placed on these imports, it would put upward pressure on the overall price level and would increase business costs as many of these imports are used as intermediate goods.

Service exports also play a central role in the Irish economy. These exports are also exposed to Brexit as the UK accounts for almost 20% of service exports. This is the third highest share in the EU, after Spain and Malta. The UK is the most important market for transport services, 60% of total exports. It is also an important market for travel and financial services exports, which represents roughly 30% of these exports.

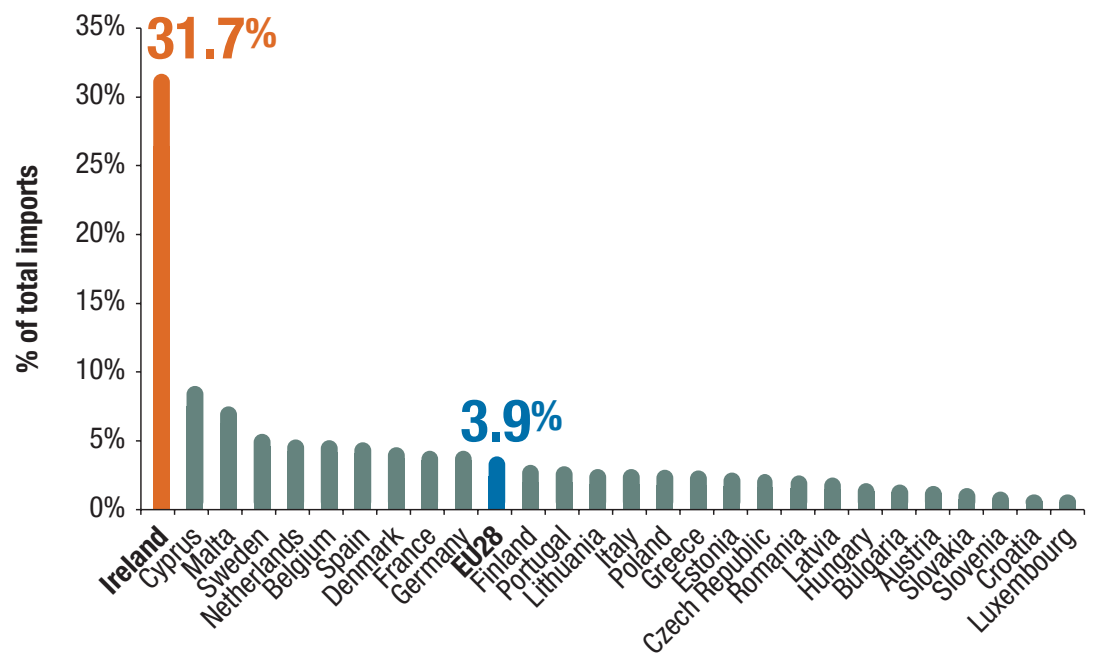
Ireland is uniquely exposed to Brexit / continued

Figure 3: Trade with the UK by Member State

(A) Exports to UK as % of total exports



(B) Imports from UK as % of total imports



## Ireland's exposure is worse than headline trade figures suggest

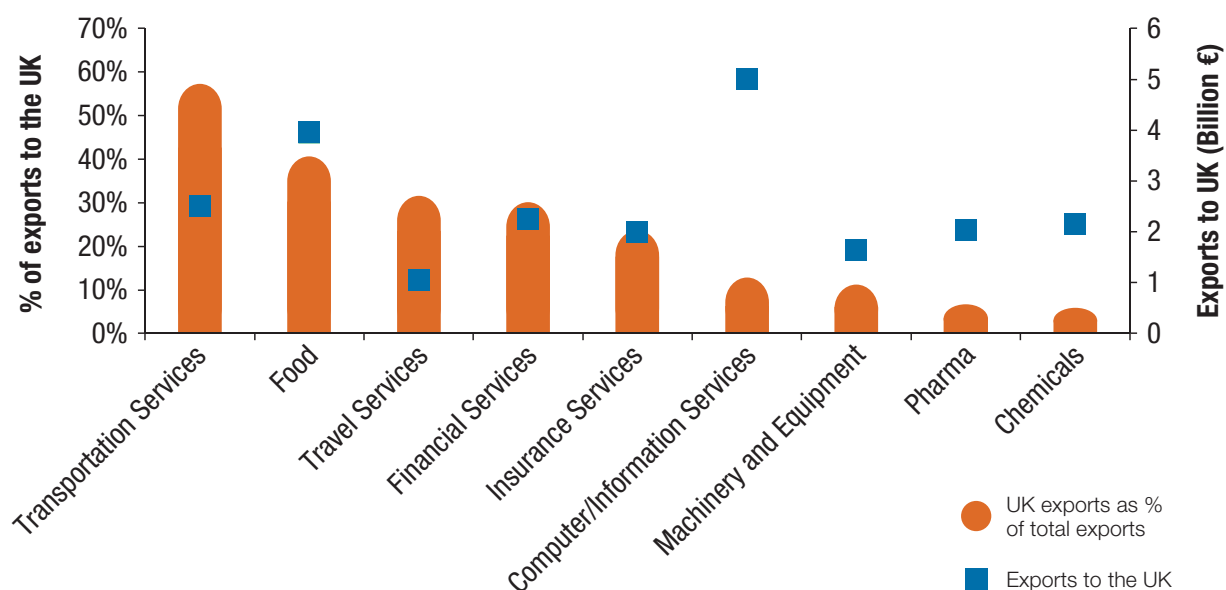
Certain sectors of the Irish economy are particularly exposed. Roughly 14% of goods and 20% of services exports go to the UK, however this proportion is much higher for specific sectors of the economy. These are sectors that are typically jobs-intensive and are located in rural parts of the country.

Agri-food is our largest and most exposed indigenous export sector. The sector is both labour intensive and a large purchaser of primary output. Over €4.3 billion annually is spent on purchases from primary producers. A further €2.1 billion is spent on compensation of employees in the sector who primarily live in rural locations. There are 230,000 people employed directly and indirectly in the agri-food supply chain and 40% of its exports (€4.4 billion) go to the UK. In the region of 46,000 jobs in the sector (2.3% of total employment in the economy) are linked directly or indirectly to exports to the UK. European Commission multipliers suggest the total number of jobs reliant on agri-exports to the UK could be as high as 65,000. Of this, over 8,000 jobs are in the food manufacturing sector.

Overall, it is the indigenous sectors of the economy that are most reliant on the UK. Over 40% of their output goes to the UK, compared with only 10% of that from non-Irish companies. Indigenous exporters spend as much in the domestic economy through purchases and wages as the multinational exporters. They also employ as many people, with even greater regional spread. The impact of Brexit on the producers of 11% of our total exports will be as important for the domestic economy as the fortunes of the producers of the other 89%.

On the services side, those most exposed are transport services (€2.5 billion representing 60% of total exports) and financial services (€2.25 billion representing 30% of total exports). Tourism is also heavily reliant on the UK as 41% of visitors to Ireland come from Britain and the UK accounts for 32% of total travel services exports.

Figure 4: Exports to the UK





## Ireland is uniquely exposed to Brexit / continued

### Ireland and the UK share a labour market

Language, history, geographic proximity and cultural links mean that Ireland and the UK effectively share a labour market. Any disruption to the Common Travel Area (CTA), and existing EU labour market rules and the free movement provisions, would particularly affect Ireland.

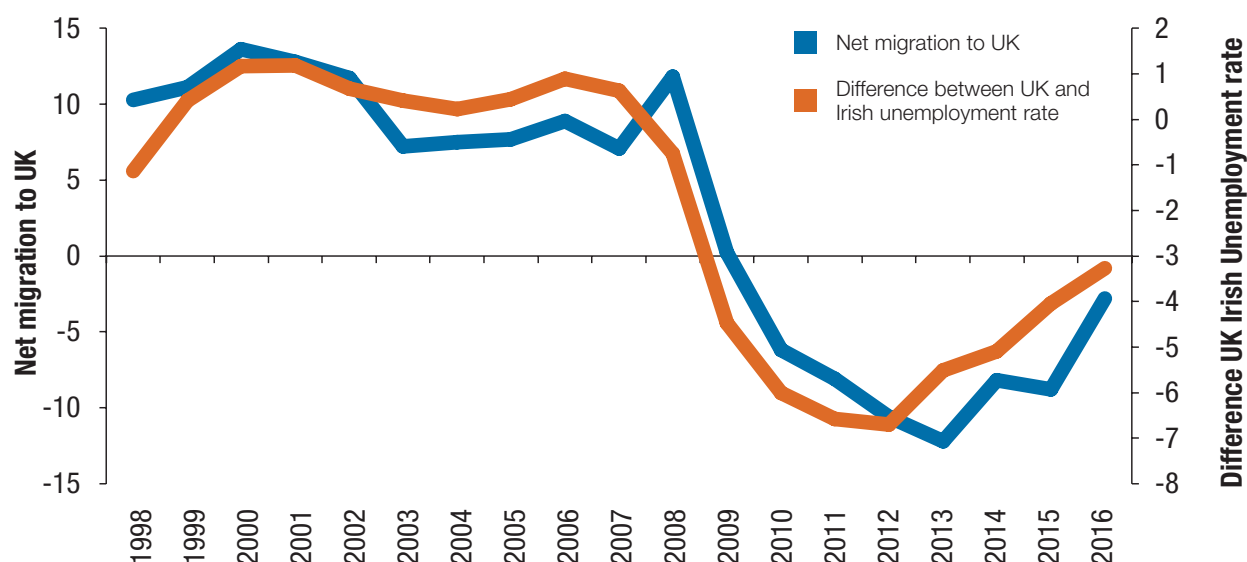
The integrated nature of the labour market and significant migration flows both to and from the UK has supported the Irish economy in good times and bad. Migration to the UK is highly cyclical. During economic downturns more people relocate from Ireland to the UK to work than move in the other direction; this trend reverses during upturns. This is particularly true when the Irish unemployment rate is higher/lower than the rate in the UK. These migration flows are central to the Irish labour market, as it reduces unemployment during downturns while increasing the labour supply during times of high demand. A study from Ireland's

Economic and Social Research Institute (ESRI) found that from 2011-2013, wages would have fallen by 4% had there not been an outflow of 60,000 people to the UK.

Many companies are organised on an Ireland-Britain and/or all island basis. The free flow of labour and talent between the two jurisdictions is crucial to smooth business operations.

Labour market integration is particularly evident between the Republic and Northern Ireland. Tens of thousands of people commute daily across the border to work. Workers in retail and wholesale, education and health inevitably make up a large proportion of these numbers. Farmers and transport workers in the agri-food business make up another significant section of the workforce that frequently needs to cross the border for work purposes.

Figure 5: Migration to the UK and Unemployment



## The impact of Brexit is already being felt

Given that Ireland is so exposed to the UK, the weakening of sterling that happened in the later part of 2016 had a significant impact. While sterling has strengthened in 2017, the negative movements at the end of last year highlight just how exposed Ireland is and how greater volatility in the future could adversely impact on the economy and particularly on indigenous sectors.

### ■ Export performance down

Exports played a huge role in our economic recovery, but 2016 saw a slight slowdown in this growth. In 2016 the exports of goods and services grew by 2.4%, the weakest performance since 2008. Headline figures do not, however, capture the more significant impact of Brexit to date on exposed sectors, even before the application of any potential tariff or non-tariff trade barriers.

While goods exports increased by 5%, if chemicals and electrical equipment are excluded, exports actually fell by 3%. Food exports in particular saw a significant decline, as these exports to the UK fell by 5.3% in 2016 compared to the previous year.

This weak export performance meant that output in traditional manufacturing fell by 2% in the second half of 2016, while food output fell by 4.3%. If this continues it will have severe impacts on the overall economy as these sectors spend a higher proportion of turnover on wages and intermediate purchases than other sectors of the economy.

### ■ Retailers have also taken a hit

The weak sterling also had an impact on the retail sector. Retail sales growth was strong in the first six months of 2016. Values were up 3% and volumes were up 5.5%. However, this slowed significantly in the second half of the year as volumes were only up 3.4% and values were up 1%.

This slowdown in retail sales was accompanied by a significant rise in cross border shopping. In Q2 of 2016 the number of Irish-registered cars in Northern Ireland shopping centres was 30%, and this has increased to 58% in Q3.

Other indicators reinforce this trend. Debit and credit card usage monitored by the Central Bank of Ireland showed e-commerce transactions increased by 11% in the second half of the year. This surge in activity is linked with a sterling devaluation as 70% of this e-commerce spending goes to UK based online retailers.

# Trade and customs

**The UK is not only a member of the EU Single Market but also of the EU customs union. This involves a common external tariff on goods coming into the EU and, in turn, facilitates the free movement of imported goods throughout the EU, without the need for customs checks or tariffs when crossing internal EU borders. It means the EU negotiates trade deals as a bloc. Individual member states do not have the legal authority to strike their own individual trade agreements.**

**B**ritish business wants the UK to remain in the customs union, maintain tariff free trade and minimise non-tariff barriers with the EU. However, the UK has indicated that, while it wants to maintain as frictionless trade as possible with the EU post-Brexit, it also wishes to agree its own trade deals and decide its own rules and regulations for doing business. This would exclude the UK from the EU customs union as we know it and necessitate a new external EU customs border between the Republic and Northern Ireland, and on the East-West aviation and maritime trade routes between the Republic of Ireland and Britain.

Ireland's geographic position, with the use of the UK as a land bridge to other EU states, and the reliance on UK suppliers and markets, in addition to the land border with Northern Ireland, means it is uniquely exposed to the cost, complexities and disruptions associated with applying and administering a customs border. The economic implications are potentially enormous.

The backdrop of the Northern Ireland Peace Process, underpinned by the Good Friday Agreement, and the removal of border checks as part of that process, combined with deeply integrated all island supply chains will mean that unique, tailored and imaginative solutions will be needed to manage the transit of goods across the island of Ireland.

## Challenge: A Brexit day trade ‘cliff edge’

If the UK exits the customs union, a customs agreement between the EU and the UK must be in place on the day of exit. If there is no agreement in place there will be no agreed procedure to land goods entering the EU from the UK or goods exported from the EU to the UK. This will lead to major disruption and legal uncertainty at entry and exit ports, airports and along the land border.

- Solution** Given the overwhelming economic rationale for both parties, the UK should remain in the customs union to enable tariff free trade to continue.
- Solution** If the UK exits the customs union, business and governments will need time to prepare. The customs requirements, procedures and processes to be put in place, including along the land border, must be dealt with early in Article 50 negotiations, with the express aim of eliminating uncertainty, the risk of trade disruption and additional costs on business.
- Solution** The UK should remain part of the European common transit system to ensure smooth transit of goods to, from and through the UK from the first day that the UK is no longer a member of the EU.
- Solution** A ‘cliff edge’ scenario in the absence of an EU-UK deal, whereby WTO tariffs would apply to EU-UK trade on the day that the UK exits, must be avoided. Comprehensive transitional measures are needed to bridge the gap between a UK exit and a new EU-UK free trade agreement (FTA) coming into force. This transitional deal must provide continuity with existing trade arrangements, until the point that any new arrangements take effect. The transitional phase must be long enough to allow ample time for companies to plan and prepare for new FTA arrangements.

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## Challenge: Costly, disruptive EU-UK tariff barriers

A poor post-Brexit EU-UK trade deal could result in crippling tariff barriers on certain products. Key sectors of the economy are particularly vulnerable as traditionally the sectors hardest hit by such barriers are food and drink. These are key job intensive sectors, heavily reliant on the market in Britain as an export destination and on Northern Ireland as a source of raw material and processing location.

- Solution** The trading relationship between the EU and the UK should be as close as possible post-Brexit. An ambitious, broad and comprehensive EU-UK FTA must involve minimal tariff and non-tariff barriers to goods being processed and goods going to market. It should also cover services.
- Solution** If tariffs and tariff rate quotas are a feature in a new EU-UK FTA, the tariff rate quota(s) volume, structure and definition must take into account existing trade flows and market requirements. This is important to minimise the risk of product displacement in the post-Brexit EU27 Single Market.

### What are tariff rate quotas and why do they matter?

- In its free trade agreements (FTAs) with third countries the EU works towards tariff liberalisation for industrial and agricultural products. For example, in CETA the EU and Canada agreed to eliminate 100% of industrial tariff lines. For agricultural products, both the EU and Canada agreed to eliminate over 90% of tariff lines. Some sensitive products (e.g. certain dairy, beef and poultry products) will be liberalised under a tariff rate quota (TRQ).
- Under a TRQ system parties agree a quota and a two-tier tariff regime for certain products. Imports within the quota enter at a lower (in-quota) tariff rate while a higher (out-of-quota) tariff rate is used for imports above the concessionary access level.
- TRQs are administered through the European Commission or through relevant authorities in member states. This can be done on a first come first served basis or through an import licensing system.

### Challenge: Burdensome, costly customs procedures for companies

A new customs border between the EU and UK will present major challenges to how business operates, which will impact exporters and importers. Many exports and imports are now delivered 'just in time'; with some companies operating within a 30 minute window for delivery of goods to customers based in the UK, and vice versa. In many cases, for example, medical devices and fresh food products, time delays would be extremely disruptive. Burdensome customs procedures, including veterinary and other checks, along with associated administrative costs and delays, and disruptive alterations having to be made to production, would have significant and far reaching economic costs. The land border between the Republic and Northern Ireland presents numerous additional challenges, which will demand particular attention during the negotiations.

- Solution** The movement of goods must not be unduly hampered by customs procedures. Simplified procedures must be sought within the bounds of the Union Customs Code to ensure the smooth flow of goods. Local clearance or pre-clearance procedures should be granted to sensitive sectors to facilitate management of their new customs obligations onsite.
- Solution** The EU and the UK must agree to recognise each other's Trusted Trader status (or Authorised Economic Operator (AEO) status in the EU framework) under exit and transitional arrangements to facilitate continuation of business operations. Trusted traders are recognised as satisfying necessary standards and having secure supply chains. Benefits of having trusted trader status include reduced customs inspections and priority processing for inspections when required.
- Solution** Within the existing AEO framework, a simplified status for EU SME exporters to the UK should be made available. This would benefit SMEs with regular consignments to the UK. For example, this should include provisions for local customs clearance (where customs officials clear goods for export at the site of the company) or periodic declarations (where a customs declaration is not needed for each regular consignment). Businesses with this status would benefit from a simplified regime for export to the UK. There must be effective coordination between EU and UK revenue authorities in granting AEO status to ensure 'imports' have equivalent simplification.
- Solution** Also within the existing framework, a category of AEO should be created for firms which have integrated production and supply chains and move goods back and forth across the border between their production sites. A process can be created for these movements to occur by adapting existing customs through a special type of bond and/or transit procedure.
- Solution** Micro SMEs, i.e. companies that employ less than 10 employees, especially on the island of Ireland, carry out a significant amount of cross border service, repair and support business requiring the movement of personnel and professional equipment. These companies operate on both sides of the Republic of Ireland/ Northern Ireland land border and also play an important part in the regional economies. As such, specific simplified customs arrangements and supports are needed to ensure that this business flow is not inhibited post-Brexit by restrictive and costly new customs compliance and control. This should include distinct customs arrangements for activities below a certain economic value, such as minimum and/or simplified data being required by customs for their processing.
- Solution** To mitigate the impact of any disruption to operations, EU-sponsored trade finance schemes should be introduced to help businesses adapting to the new trading and business environment.
- Solution** There are certain customs economic supports that can be introduced in Ireland to enable businesses to manage cash flow. For example, the extension of duty benefits to Irish companies importing into Ireland for processing (inward processing) and companies sending products to the UK for processing and subsequent re-import into Ireland (outward processing) by sea, air and land. This would enable companies to temporarily import/export for processing without paying customs duties or charges. At present, there are significant restrictions on the use of such reliefs in certain industries. A more flexible approach will be necessary after Brexit.
- Solution** The imposition of import VAT on trade with Britain and Northern Ireland will impose very significant cash flow costs on business in the Republic. To alleviate this, a mechanism should be made available to all VAT registered companies in Ireland, whereby import VAT from a third country (the UK) is paid and accounted for in a simultaneous transaction. This would minimise cash flow and working capital implications as the eligible trader could claim the VAT as an input credit at the same time as declaring the VAT liability.



## Challenge: Lack of business expertise to manage new custom rules

The UK is the first and only export market for many Irish SMEs. Depending on the new EU-UK trading relationship, many may have to upskill and develop new expertise in areas such as certification and rules of origin to comply with new customs procedures. SMEs and companies that have experience in exporting to third countries will also need time to adjust existing practices to comply with the new customs regime. Ireland's exposure to the UK market means these companies are disproportionately affected.

**Solution** EU-backed training, logistical and financial supports will be needed for businesses to upskill and adjust their practices in light of the new EU-UK trading relationship.

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## Challenge: Divergent food and agricultural standards

The EU applies strict sanitary and phytosanitary (SPS) standards and is a sealed zone for the production, sale and consumption of food and agricultural products, including plants, animal products and cereals. An agreement must be in place between the EU and a third country to import goods of this nature into the EU. Even with an agreement in place, there are onerous obligations on those exporting into the EU to meet the EU standards required. This includes inspection of premises and acquirement of approved premises status as well as inspections at the border. As there is currently no external EU border between the UK and the post-Brexit EU27 there are no approved premises in the UK, including Northern Ireland. This presents significant uncertainty as to how such standards will be applied post-Brexit. To avoid the cliff edge scenario in trade in agricultural products, it is critical that early consideration in EU-UK negotiations is given to the application of official food and feed controls on EU-UK trade.

**Solution** Current SPS standards must be recognised and maintained by both parties on exit day and during the transition to an FTA. Any new FTA must involve maximum collaboration on SPS standards and minimal divergence in the application of such standards into the future to ensure minimal disruption to trade and production. To avoid disruption, the application of standards across the island of Ireland will demand special consideration and tailored solutions. Prior to the conclusion of an FTA between the EU and UK, the continuation of the seamless production, sale and consumption of food and agricultural products by way of a transition agreement will be essential.

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## Challenge: Negative impact on trade transit and facilitation

The smooth movement of goods may be impeded post-Brexit due to changes in transport and transit procedures. This will impact business directly and do harm to firms in Ireland, through the costs associated with transport, and indirectly through the potential time lost at borders. Once the UK leaves the EU it will potentially leave the European transit system. The system reduces administrative obligations and costs by allowing goods to move within the transit system (i.e. between different customs territories), with taxes and charges payable at the final destination only.

**Solution** The UK should remain a member of the European transit system post-Brexit and the associated guarantee waiver scheme should be extended as widely as possible to traders in Ireland who must use the system.

**Solution** The current excise duty movement and control system (ECMS) allows seamless movement of excise products throughout the EU (including the UK) and is a major facilitation for beer and spirits producers including those organised on an all island basis, such as the Irish whiskey industry. Any new EU-UK arrangements must maintain this system and its key features.

**Solution** Given the volume of trucks carrying goods by sea in and out of Ireland and the existing infrastructure challenge at Irish ports, every effort must be made to avoid unnecessary delays and stopping of vehicles. Customs procedures at ports in Britain, Northern Ireland, the Republic and on the Continent should be aligned to operate on a seamless basis to ensure the overall integrity of the system.

**Solution** Specific transit arrangements will be needed to facilitate the continued use of Britain as a land bridge to continental Europe for many Irish exports. In this regard, cooperation between customs and veterinary authorities to avoid duplicative and burdensome checks, such as veterinary inspections, will be important.

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## Priorities / continued

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**Solution** Preclearance on boats is one possible mechanism to mitigate delays at ports. This could improve processing times and facilitate movement through the ports.

**Solution** EU-backed funding supports should be made available to ports and airports which will have to provide significant new infrastructure to adapt and prepare for changes in customs practices. Regional infrastructure funding that derives from several existing EU frameworks should be used and, if necessary, re-evaluated to ensure that connectivity between Ireland's regions and Europe is not damaged by Brexit.

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### Challenge: Capacity pressure on customs authorities

The UK leaving the EU customs union and becoming a third country would dramatically increase the workload on customs authorities and raises significant issues around the capacity of customs officials in Ireland and the UK to manage the new relationship. The potential application of any new arrangement on the land border between the Republic and Northern Ireland demands a careful, detailed and imaginative approach.

The number of Single Administrative Documents (SADs) processed by Irish customs authorities is likely to increase dramatically post-Brexit. The result will be substantial additional pressure on customs personnel, technology and physical infrastructure.

**Solution** To support inter-agency cooperation, a legal framework for future close customs collaboration between EU and UK authorities must be agreed early in negotiations. The duplication of any customs procedures on both the EU and UK side must be avoided. The principles that have underpinned the simplification of customs procedures to facilitate trade and business should continue to be applied (e.g. trusted traders, simplified data requirements and processing procedures, risk based physical checks etc.). The exchange of information, data processing and transmission, should also inform the customs agreement between the EU and the UK. The existing and long standing EU-UK relationship should form the basis for uniquely close cooperation into the future. The customs collaboration agreement should provide guidelines on how duplication can be avoided. Business must be closely involved in this process. Agreement on this should be reached prior to the conclusion of the Article 50 negotiations.

**Solution** The EU and UK must apply global best practice and new technology to ensure the smooth flow of goods between the two jurisdictions under any new arrangements. This might include the use of number plate recognition and communication with drivers to ensure smooth operation at exit and entry points with minimal delays. Current EU-UK ties should form the basis for uniquely close future collaboration. The most universally visible and impactful application of new checks and controls will be for the land border between the Republic and Northern Ireland. International best practice will also need to be adapted to its particular circumstances and conditions.

**Solution** Customs authorities must ensure adequately trained personnel and technological capacities are in place at the time of the UK exit, and allocate human and financial resources accordingly. Electronic customs procedures already in place must not be jeopardised by increased workload generated as a result of Brexit.

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## Priority 2

# The EU Single Market and regulation



**The UK has indicated it will leave the EU's Single Market, as membership is not compatible with the stated objective of ending EU free movement of people provisions. It has, however, expressed a desire to maintain the freest possible "access" to the Single Market for UK businesses. What this can and will mean in the context of a new EU-UK relationship is far from clear.**

**A** UK repeal of the European Communities Act, will convert the "acquis", the body of existing EU law, into UK law. This means that the same regulations (rules and law) will apply in the UK on the day after Brexit as before. However, the UK Parliament will then be free to decide on any change to that body of law as it applies in the UK.

The UK has indicated that it will withdraw from the jurisdiction of the European Court of Justice (ECJ) and will no longer be bound by decisions of the Court. This presents major questions and challenges about the governance of future EU-UK agreements, how they can be legally enforced and how disputes can be resolved. It also presents the possibility of significant regulatory divergence and the potential for unfair competitive advantage for the UK post-Brexit.

Regulatory divergence is likely to emerge in two ways (i) changes to the application of existing EU laws in the UK following Parliament scrutiny and debate and (ii) future changes to EU law as it evolves over time within the EU institutions that may not be adopted by the UK, which in some instances will happen quite quickly.

Single Market rules and the jurisdiction of the ECJ are central to providing a level playing field and ensuring fair competition between companies operating within the EU. Any new EU-UK arrangements will have to ensure that the coherence and integrity of the Single Market is preserved and ensure UK firms compete with EU firms on fair terms.

The UK has said that no new barriers to living and doing business are to be created within the UK itself and that common standards and a uniform framework for its own domestic market will be maintained. This means that the regulatory environment in the devolved administrations of Northern Ireland, Scotland and Wales cannot be different to the rest of the UK. How this will be delivered in practice, especially in Northern Ireland, given commitments to devolved responsibility and to protecting the Good Friday Agreement and Peace Process, is not at all clear.

### Challenge: Regulatory divergence between the EU and the UK

Regulatory divergence could easily become a significant barrier to EU-UK trade post-Brexit. Any such divergence would impact business and investment decisions, and potentially significantly disrupt highly integrated supply chains in often very complex and sophisticated industries. Regulatory divergence would be particularly difficult for SMEs to manage given their limited resources.

**Solution** To ensure fair competition and reduce barriers to trade, any future EU-UK FTA should ensure maximum regulatory conformity across all relevant areas. A regulatory cooperation framework between the EU and UK to monitor regulatory divergence should be established. This should ensure that any future changes to regulations in both the UK and EU are fully understood by both parties and the impact of such changes is assessed.

**Solution** In addition to monitoring regulatory divergence and maintaining a regular dialogue between regulators, the enforcement of agreed standards must remain coherent. A mechanism must be agreed on how to examine and resolve any issues that may arise.

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### Challenge: Absence of governance structures to monitor and enforce post-Brexit EU-UK trade relations

Any new EU-UK FTA would require a comprehensive governance structure and dispute resolution mechanism. In the absence of a robust system, compliance cannot be guaranteed and disputes could either be left unresolved or escalate and further disrupt economic and political relations. Business needs legal certainty and a predictable regulatory environment in which to operate effectively.

**Solution** In determining the shape and scope of the future trading relationship, it is vital that both parties agree on a compliance framework, governance mechanism and dispute resolution system which is workable and effective, and ensures fairness, consistency and reliability. To avoid unnecessary duplication and provide legal consistency, the ECJ should continue to play as significant a role as possible in the application of EU trade agreements and the governance of cross-border European trade in goods and services.

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### Challenge: Regulatory divergence could distort competition and facilitate unfair competition

A uniform approach to many areas of regulation across the EU means that companies compete on a level playing field. This shared regulatory framework is also supported by a sophisticated body of EU competition law. A UK outside of the EU could seek to change domestic law to give UK companies extra advantages in the market over EU competitors, through state aid for example.

**Solution** Any new EU-UK trade agreement must include comprehensive, legally enforceable commitments to ensure fair competition. This should cover areas such as state aid, labour market regulation and environmental regulation, among others.

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## Challenge: Potential regulatory divergence in financial services within the EU

The Irish Government has raised concerns with EU institutions about potential regulatory arbitrage in financial services. It is important to prioritise a level playing field across EU member states, particularly in the context of the relocation of some financial services activities out of the UK.

**Solution** EU institutions must ensure all national supervisory authorities apply the same standards.

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## Challenge: Disruption to public procurement markets

Public procurement markets in both UK and Ireland may experience significant disruption as a result of Brexit. The UK public sector is a growing export market for companies based in Ireland. UK companies, and especially those operating from Northern Ireland, are the top non local bidders for government contracts in the Republic. It is also possible that Brexit may cause problems for public procurement contracts that extend beyond the leaving date.

**Solution** An agreement on existing public procurement contracts must form part of any Brexit transitional arrangements. Access to each other's public procurement markets must also be part of any EU-UK FTA.

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## Challenge: Disruption to the EU Digital Single Market

The UK's withdrawal may impact the shape and pace of the development of the Digital Single Market (DSM), potentially undermining its attractiveness and adding complexity for companies with pan-European operations.

The UK currently complies with the EU legislative framework on data protection and is committed to the implementation of the EU General Data Protection Regulations (GDPR) in May 2018. EU data protection rules also place restrictions on the movement of personal data outside of the EEA e.g. customer or personnel data. However, Brexit means that EU rules will no longer directly apply to the UK and questions remain over governance of these issues in the UK into the future.

Consequently, there may be restrictions on the transfer of data between Ireland and the UK and a need for a European Commission 'adequacy decision' to enable EU-UK data transfers. This may have operational implications for Irish businesses reliant on the free flow of customer or personnel data across borders. It may also place a significant new barrier to the cross border sharing of public service provision on this island such as in health and education.

**Solution** Any future FTA between the EU and the UK must contain a comprehensive chapter covering digital trade and data flows between the EU and the UK and facilitate the closest possible post-Brexit cooperation. Access to each other's public procurement markets must also be part of any EU-UK FTA.

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### Challenge: Protecting intellectual property (IP) rights post-Brexit

Businesses need to know that their inventions, products, brands and trademarks can be protected and enforced in the markets in which they operate. However, Brexit will potentially remove the UK from the EU's IP legal and regulatory framework, which is key to promoting and facilitating innovation. As such it risks undermining the current pan-European unitary patent system and creates legal uncertainty for companies as to how IP is governed into the future. Progress in this area has been a long time coming. It is vital that this work is not undermined by Brexit.

**Solution** To ensure legal certainty, the UK should recommit to the European Unitary Patent and the Unified Patent Court project.

**Solution** As part of any new EU-UK FTA, the UK should introduce a mechanism (i.e. minimal administrative burden and cost) to allow current holders of EU trademarks and registered community designs to continue to receive adequate protections in the UK post-Brexit. Such an agreement should also provide legal certainty around copyright and database rights into the future.

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### Challenge: Disruption to the EU's single aviation market

Brexit has the potential to disrupt aviation growth in both the UK and the remaining EU-27. A withdrawal by the UK from the EU Single Aviation Market would impact traffic rights to/from the UK unless a replacement agreement is put in place between the EU and the UK. Air passenger transport is not covered in FTAs but in separate agreements.

While there are some bilateral international agreements between the UK and the individual EU member states that pre-exist the EU single aviation market, these are generally very restrictive. New arrangements would therefore be required in order to retain existing traffic rights. Without these, UK carriers would be subject to restrictions in operating existing routes between the UK and the EU, within the EU, and between the UK and a number of third countries such as the US, through the Open Skies Agreement. As with trade deals, the UK would be required to conclude bilateral access agreements with the EU and third countries and would no longer achieve automatic coverage by being part of a larger bloc.

The EU single aviation market is a critical enabler of economic growth. European airports have been developing as global gateway hubs. Hampering feeder traffic to/from the UK to transatlantic and other trans-continental destinations could undermine future destination growth and infrastructure investment made to date or in planning.

Ireland is particularly exposed to any disruption to the EU-UK aviation market. As an island nation and close neighbour, Ireland is heavily reliant on UK-Ireland passenger traffic for tourism, business travel and connecting to destinations further afield. More than 12.7 million air passengers were carried between Ireland and the UK in 2016. The Dublin to London route carried more than 4.7 million air passengers in 2016, making it the busiest international air route in Europe.

**Solution** Facilitating connectivity post-Brexit must be a priority. The post-Brexit aviation regulatory regime must mirror the current liberalised open market access arrangements in order to minimise the disruption on travel and trade. A seamless transition to any new arrangements is vital. Aviation planning requires significant lead-times in terms of airport infrastructure development (both landside and airside) and resource allocations (e.g. aircraft planning). A seamless transition must occur that also supports continued EU-UK cooperation on aviation security and safety standards post-Brexit and limits the potential for future regulatory divergence.

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## Challenge: Disruption to the EU's cross-border investment fund market

Ireland is one of two primary cross-border investment fund hubs in Europe, with €2.1 trillion of assets domiciled in Ireland, whilst the portfolio management of 37% of all assets in the EU is carried out in the UK. Considering the global nature of the asset management sector, it is important that firms and clients in the EU27 continue to have access to UK fund management and other services, as well as investment funds and products. The absence of such arrangements has the potential to disrupt existing patterns of savings and investment, reduce choice, eliminate existing scale benefits and potentially trigger tax liabilities from forced consolidations.

**Solution**      There must be long term mutual recognition and mutual market access in financial services between the UK and the EU27.

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## **Priority 3**

# **The Ireland-UK Common Travel Area**

**A unique and intertwined cultural, social, economic and political history means a Common Travel Area (CTA) has existed between Ireland and the UK since 1922.**

**T**he CTA provides for free movement of people across the islands, but it also allows citizens of Ireland and the UK to access various services and benefits in each country, such as the right to reside, work, access public services and vote in certain elections. These go significantly beyond the rights afforded to other EU member state citizens under the Treaties.

The rights and provisions of the CTA are vital to the functioning of cross-border economic activity between the Republic and Northern Ireland. Consequently, the CTA is a fundamental basis and premise on which the Northern Ireland Peace Process is built, and which both the EU and UK recognise needs to be protected.

The CTA underpins longstanding Irish-UK ties and reflects the deeply integrated nature of the two countries and their economies. The Irish economy relies on the labour market in Britain to offer employment to Irish workers during economic downturns, and also to provide a vital source of talent to address skills shortages.

Many companies are organised on an Ireland-UK basis and the free flow of labour and talent between the two jurisdictions is crucial to the smooth operations of commerce. Businesses rely on the ability of being able to transfer staff with ease between the UK and Ireland and many employees of Irish and British firms work across both jurisdictions. Many thousands cross the border every day in both directions to work.

Neither Ireland nor the UK are members of the Schengen travel area and both countries currently operate border checks on people travelling from other EU Member States. Given the CTA, both countries also have a coordinated approach to travellers from non-EU/EEA countries.

While some of the provisions of the CTA have been subsumed within, or have been overtaken by EU rules, the Irish-UK CTA travel and immigration arrangements are explicitly recognised in Protocol 20 of the Treaty on the Functioning of the EU.

## Challenge: New travel and labour market restrictions between Ireland and the UK

Brexit will remove the UK from the EU's free movement provisions that legally underpin many of the existing rights to travel and work, along with associated benefits that all EU citizens currently enjoy. While the CTA pre-dates such legal rights, and can operate independently of EU rules, it is crucial that no Brexit settlement undermines the ability of Ireland and the UK to continue to put in place bilateral arrangements in this area.

An end to the CTA and the introduction of new border controls would significantly disrupt the shared Ireland-UK labour market, adversely affect economic activity more generally, undermine the functioning of the all island economy while also posing an enormous and very dangerous challenge to the Peace Process.

**Solution** As recognised in both the EU negotiating guidelines and in the UK's Article 50 trigger letter, any EU-UK agreement must allow Ireland and the UK to continue to make bilateral arrangements in these areas, including preserving the Common Travel Area. This crucial issue should be resolved in the early stages of the negotiations.

**Solution** Maximum and reciprocal travel and other labour market entitlements between the UK and the EU post-Brexit must be a key objective of negotiations, given the shared social and economic benefits.

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## Priority 4

# Ireland's all island economy



**The all island economy of the Republic and Northern Ireland has developed enormously since the Good Friday Agreement of 1998. This process was aided significantly by shared EU membership, which removed many of the economic regulatory and border barriers between the two jurisdictions, and provided a broader and more supportive political and administrative context for investment growth and job creation.**

**P**rior to the establishment of the Single Market in the early 1990s, the Republic and Northern Ireland had a dysfunctional economic relationship. Today, however, cross-border economic activity has risen to EU norms. In many cases this is driven by SMEs as well as large firms adopting and operating an all island business model. Many thousands cross the border, in both directions, to work each day.

Shared EU membership, along with the Peace Process and underpinned by the Good Friday Agreement, has also provided a basis for an all island approach to cross-border business, infrastructure investment and commercial projects. There is enormous potential for future all island cooperation and economic development.

Ibec and the Confederation of British Industry (CBI) in Northern Ireland have set out detailed investment proposals to underpin the path towards a peaceful, connected, prosperous island of 10 million people by the middle of this century. Realising this ambition requires ongoing close cooperation and collaboration, a stable political and economic backdrop, and major investment.

It is vital that both the EU and UK fully deliver on the objectives set out in the EU negotiating guidelines and the UK's Article 50 letter to avoid a hard border, support existing bilateral arrangements, and facilitate flexible and imaginative approaches to the range of other all island challenges Brexit presents.



## Challenge: New barriers to trade and business development could seriously undermine the stable functioning and potential of the all island economy

The UK leaving the EU could significantly set back the development of the all island economy, which is helping to embed peace on the island of Ireland. The absence of a shared EU economic and policy framework could undermine economic integration, trade flows and cut off access to vital EU funding streams for all island projects.

**Solution** The economic impact of any possible new travel and customs border arrangements between the EU and UK must be subject to robust impact assessment during negotiations in order to examine the possible effect on the Peace Process and the all island economy. This analysis must fully take on board the views of business in the Republic and Northern Ireland, and inform, and be fully reflected in, any final EU-UK deal.

**Solution** There should be no hard border between the Republic of Ireland and Northern Ireland. This will require the maintenance of the CTA post-Brexit (see also section on the CTA) and the adoption of trade and customs procedures that involve minimum disruption (see also section on trade and customs).

**Solution** The interconnectedness of all island production and supply chains must be maintained. Any FTA between the EU and UK must take specific account of its unique impact on the all island economy and include specific measures to offset the negative economic effects. This should include additional all island customs arrangements and tariff free trade quotas for companies operating on an all island basis if needs be (see also section on trade and customs).

**Solution** The future development of the all island economy must be an explicit shared objective of any EU-UK deal and it must be supported by firm commitments to collaborate on the future planning and financing of key all island investment projects. Early agreement on the completion of investment projects already in the planning phase or underway is essential. Clear political and financial commitments and arrangements are needed from both parties to maintain EU cross-border funding programmes such as Interreg, PEACE and Horizon 2020 which support, enable and advance all island research, development and innovation. The completion of an all island motorway network should be a priority.

**Solution** The spirit, principles and commitment of the Good Friday Agreement, along with the political, legal and institutional arrangements in place to implement them, must be further evolved to strengthen cross border and intergovernmental coordination and collaboration that will be needed post-Brexit. The institutional arrangements put in place to implement this Agreement must be fully utilised where they can support and contribute positively to the negotiating process.

Comprehensive new agreements and ways of working will also be needed between all of the agencies implementing, administering and enforcing the new cross-border arrangements. These must be progressed as the negotiations are proceeding and involve in-depth technical consultation with all island businesses.



## **Priority 5**

# **Higher education and research**



**Ireland and the UK's interlinked history means the two countries share a common academic and research culture. They operate in a shared higher education and research environment, and there are deep similarities in curriculum structures, pedagogy and how universities and colleges are structured and managed.**

**A**cross Ireland and the UK, there is a shared academic career system and environment for post-graduate and post-qualification experience. Post-doctoral fellows and early stage researchers as well as mid-career academics seek opportunities in each other's domain. The same goes for senior academic, professional and administrative positions. At present, there are over 2,330 Irish academic staff in UK higher education institutions.

The UK is Ireland's largest research partner under Horizon 2020 – it was partner for 13.4% of projects won, followed very closely by Germany (13.3%) and Spain (10.9%). Some 72% of the total Irish drawdown of Horizon 2020 project funds has involved a UK partner.

This close relationship between Ireland and the UK in higher education and research exists now within the context of the EU through its free movement and funding framework. Brexit, has the potential to significantly change the current, overwhelmingly positive Irish-UK relationship in this area. It is worth remembering, that relative to other EU member states, the Irish research and innovation ecosystem is still in the development phase following significant investment in capacity and capability at institution and industry level since the early 2000s. A strong EU research base is fundamental for the Irish system to reach its full potential.

## Challenge: A disruption of the close research and education collaboration across Ireland and the UK

Given Ireland's close links to UK higher and further education, new restrictions on travel and funding would have a particularly acute negative impact on Irish students and academics. Brexit could:

- Reduce cross-border student mobility and recruitment
- Disrupt joint programmes/degrees, staff mobility and other teaching and learning initiatives, especially those funded via EU programmes
- Reduce the money available to EU research funding streams due to the loss of UK contribution
- Displace Irish researchers and undermine the strong relationships that have successfully supported the Irish research system

**Solution** Maintain the CTA to reduce the impact on valuable cross-border flows of staff, students and collaboration between Ireland and the UK.

**Solution** Ensure that EU funding for education, research and innovation remains a priority and maintain EU funding streams and programmes benefiting both the EU27 and UK (e.g. Erasmus+, Interreg and Horizon 2020) through new collaborative agreements or, if necessary, develop alternative new programmes. This should be a priority as the next EU seven year Multi-annual Financial Framework (MMF) is negotiated and ultimately agreed between the EU27.

**Solution** Put in place new networks and platforms to allow new partnerships with other EU higher education institutions. There are also potential opportunities to identify new partners, and to collaborate with other EU countries looking for new partners. However, making and strengthening connections and collaborations with member states on the continent can be more costly in terms of both time and money.

**Solution** Initiate professional development for Irish based researchers to develop the key project management skills to become the next generation of global research leaders and crucial partners in future EU research programmes.

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## Priority 6

# Energy



**The energy systems of Ireland and the UK are heavily and uniquely integrated. This is the consequence of historic intergovernmental agreements on gas and electricity supply, the creation of a shared all island single electricity market (SEM) and both countries' active participation in the EU's Internal Energy Market (IEM). Ireland also imports about 50% of its natural gas and 50% of its oil via the UK.**

**W**hile the bilateral agreements on gas and electricity supply should remain in place after Brexit, it is unclear how involved the UK will be in the IEM after Brexit. A full UK withdrawal from the IEM would leave Ireland physically disconnected from the wider IEM.

The EU is also set to lose a key advocate for market integration and liberalisation. The IEM has helped deliver greater efficiency in the trade of electricity and gas, a more diversified fuel mix, reduced costs for consumers and enhanced security of supply. For Ireland, it is important that the UK's decision to leave the EU does not alter this trajectory towards greater energy union. The requirement for greater regional integration and interconnection, including the delivery of the North-South Interconnector, remains unchanged.

A full UK withdrawal from the IEM could also put pressure on the SEM. Since 2007, the SEM has helped deliver efficient and transparent wholesale electricity prices and has provided for the dispatch of the cheapest generators across the island of Ireland to meet demand. The scale of the all island market has also helped attract new investment in modern generation capacity and the integration of renewables. The SEM is currently undergoing a major transformation to ensure full compliance with EU Network Codes and integration into the wider IEM. In this context, the EU should also recognise existing bilateral agreements and arrangements between the UK and Ireland which are compatible with EU law.

## Challenge: An impaired IEM

A complete UK withdrawal from the EU's IEM would leave Ireland physically disconnected from the wider IEM and could undermine the functioning of the SEM. The EU would also lose one of its biggest proponents for market integration and liberalisation.

**Solution** Further regional integration will be needed if Europe is to meet growing demand, fully achieve its renewable potential and enhance security of supply. If the UK leaves the IEM, alternative agreements should be put in place to ensure continued collaboration between the UK and the EU 27.

**Solution** If physically isolated from the IEM, Ireland should be granted additional flexibility on meeting its obligations e.g. interconnection targets and the oil stocks directive.

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## Challenge: Disruption to the secure trade of energy

Brexit should not affect gas and electricity interconnector supply as interconnectors are governed by bilateral contractual agreements outside the EU legal architecture. However, technical and regulatory issues will arise if the UK leaves the IEM. The introduction of border tariffs for energy products or transmission would undermine trading activities and could destabilise the SEM. The UK may also not participate in EU security of gas supply arrangements, including cross border cooperation on emergency planning and the new “solidarity principle” under which member states have agreed to help each other in the event of a shortage of supply or major price increases.

**Solution** A new agreement is needed between the UK and the EU to ensure the continued and secure trade of energy between jurisdictions and cooperation on energy security. Updated bilateral agreements between Ireland and the UK on gas and electricity interconnection may also be required.

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## Challenge: Pressure on the all island SEM

A UK outside both the EU/customs union and the IEM could bring a host of technical, commercial and regulatory challenges to the functioning of the SEM. For example, an alternate dispute resolution mechanism will be needed if the ECJ is no longer accepted as a final court of appeal.

**Solution** The UK and the EU should follow through on their commitment to recognise existing bilateral agreements between Ireland and the UK and reach an agreement early in the negotiations that ensures continuation of the SEM and its successor I-SEM.

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## **Priority 7**

# **Climate change and environmental protection**



Cross border cooperation is vital to tackle climate change and environmental protection. The UK is an active participant in the EU Climate and Energy Framework which incorporates member state targets for greenhouse gas (GHG) emissions reduction and the world's largest Emissions Trading System (ETS) for heavy industry and the power generation sectors. The UK is considered part of the EU's 2030 GHG reduction obligations under the 2015 Paris Agreement on Climate Change, and has obligations under EU legislation on renewables, energy efficiency and industrial emissions. The UK is also subject to EU environmental legislation covering such diverse areas as nature and biodiversity, waste and recycling and chemicals regulation.

## Challenge: Reduced cooperation on climate change and decarbonisation

A UK withdrawal from the ETS could distort the price of carbon and create a host of ancillary problems that could necessitate a redesign of the entire model. While the UK could choose to retain its GHG reduction targets, it would no longer be subject to EU fines or reporting requirements. A withdrawal from the Effort Sharing Regulation (ESR) may increase the burden on the EU27. Failure to comply with the medium and large combustion plant directives could confer an advantage on UK energy intensive industries.

**Solution** The UK should continue to participate fully in the EU Climate Framework; the ETS and the ESR on GHG reduction. Even if the UK withdraws from the IEM, new arrangements should be put in place to link the UK to the ETS.

**Solution** The UK should maintain the EU environmental *acquis* or adopt equivalent measures as part of any future trading agreement.

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## **Priority 8**

# **Alleviation measures - the case for state aid supports and other measures**



**As set out in detail throughout this paper, Brexit involves an unprecedented fracture of the Single Market, with Ireland particularly exposed. As such, it is vital that the EU institutions and national governments recognise the potential for economic disruption and take decisive steps to offset such risks.**

**I**n order to support businesses during this difficult period, EU and national government funding should be provided over a three year period to help companies trade through any period of disruption, adapt and succeed into the future. Funds should be targeted at supporting innovation, market diversification, upskilling and capital expenditure in equipment and machinery. The resources required will be in the region of 5% of the value of current annual export sales to the UK.

The accession process for new EU members is structured, takes place over a period of years and supports are put in place for the economies and sectors most affected. A similar adjustment process is required to manage the departure of an EU member state.

The principle underpinning EU state aid rules is that efficient operation of the Single Market is undermined by government interventions, except for clearly defined circumstances such as market failures.

However, Article 107 of the Treaty states that the Commission may declare aid compatible with the Single Market that promotes “the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a member state”.

There is no doubt that Brexit is a serious disturbance in the European economy and that mitigating its impacts is an important project of common EU interest. This serious disturbance will be most acutely felt in Ireland, both from a political and economic perspective and therefore flexibility and support will be needed from our European partners.

## **A response is needed at European level**

In 2009, the European Commission adopted the Communication '*A European Economic Recovery Plan*'. This emphasised providing maximum flexibility in tackling the crisis while maintaining a level playing field and not placing undue restrictions on competition. In this context, the Court of First Instance of the European Communities has ruled that the disturbance must affect the whole of the economy of the Member State(s) concerned, and not merely that of one of its regions or parts of its territory. This, moreover, is in line with the need to interpret strictly any derogating provision such as Article 87(3)(b) of the Treaty.

This was the basis for the introduction, by the Commission, of the Temporary Framework in 2009 which, amongst other things, allowed for an increase in "*de minimus*" levels (i.e. small amounts of state aid which can't exceed a certain threshold) and state backed credit insurance.

A Commission staff working paper written in 2011 noted that "The Temporary Framework of aid to the real economy complemented the framework put in place to allow a swift and coordinated response during the crisis.... it has been a useful safety net allowing for an emergency response during the crisis".

The reaction of the EU states and the Commission to the financial crisis should guide the reaction to what is now a fundamental shift in the future of the Union with the exit of its second largest market. Failure to do so will compound the political, social and economic fallout for the remaining EU member states, most particularly Ireland.

# Key actions in light of Brexit economic disruption

## 1. Agree a temporary state aid framework

As in 2009 a temporary framework for state aid will be needed at a European level in order to offset the worst impacts of Brexit on otherwise viable firms.

The Commission must begin now to work with European member states in order to achieve this. The current rescue and restructuring state aid rules are designed to rescue large strategic industries which have already gone through liquidation. This will be of limited use to enable viable business affected by Brexit to diversify and restructure. It will limit the ability of government to deliver enterprise stabilisation, market diversification and trade finance measures. Intensity ratios in regional aid guidelines may also need to be re-examined given the significant regional impacts of Brexit.

## 2. Change how the European Globalisation Adjustment Fund works

The European Globalisation Adjustment Fund (EGF) was established to assist workers made redundant through the negative consequences of globalisation by co-funding labour market activation, training, education and enterprise supports. The scope of the scheme was broadened in 2009 as part of the European Economic Recovery Plan to include workers made redundant as a direct result of the global financial and economic crisis. This was accompanied by a recognition that “in order to enable the EGF to intervene in ongoing or future crisis situations, its scope should cover redundancies resulting from a serious economic disruption caused by a continuation of the global financial and economic crisis addressed in Regulation (EC) No 546/2009, or by a new global financial and economic crisis.” It is our position that Brexit as a fracture of the Single Market is a crisis and the scope of the regulation should be expanded to include European workers impacted.

## 3. Spend much more on connective infrastructure

The ‘Juncker’ Investment Plan focuses on removing obstacles and mobilising investment in Europe. So far it has been a qualified success albeit unequally across Europe. There must be a greater focus on ramping up connective investment (i.e. road, ports and air) in regions that have now been left more remote from other EU nations. In addition to this, more fiscal flexibility must be provided to member state governments to invest. Capital investment targets (as a % of GDP) should be set at a European level and there should be additional flexibility to distribute or depreciate the cost of investment over the lifetime of the asset. This can be achieved while at the same time making sure fiscal rules continue to provide a strong framework for day to day expenditure.

# Ibec's Brexit campaign

**Ibec is Ireland's largest business organisation and the voice of Irish business on a domestic, European and international level. Our members employ around 70% of the Irish private sector workforce and we have over 200 staff in seven locations across Ireland, and in Brussels.**

**T**he organisation and its sector associations work with government and policy makers nationally and internationally, to shape business conditions and drive economic growth.

We are working to support member companies across the country and in all sectors as they manage immediate Brexit risks and plan for the potential disruption to trading relationships in the future.

The Ibec approach to Brexit is threefold:

- **Firstly, we are working at a domestic level to ensure the government and relevant state agencies respond swiftly and decisively to support businesses during this period of uncertainty. We need to take immediate action in areas under our control.**
- **Secondly, we are working at a national, UK and EU level to ensure Irish interests are protected in the complex exit negotiations and in the new trading relationship the UK will have to forge with Europe. Business comes with new ideas and a constructive approach.**
- **And thirdly, we are working to support member companies as they navigate the challenges of Brexit. Ibec's Guide to Brexit sets out the potential implications of Brexit for companies, and proposes pragmatic steps that your business can take to assess the risks and prepare a response.**

Get in touch: For further information on this work, and contact details for our policy experts, please visit our dedicated Brexit website:

**[www.ibec.ie/brexit](http://www.ibec.ie/brexit)**

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