THE UK-IRELAND RELATIONSHIP

CBI

BREXIT BRIEFINGS
March 2017

Business is committed to making a success of Brexit – and an important aspect of the CBI's work is making sure that the complexity and seriousness of the issues the negotiations present are understood by policymakers. Given it is the only part of the UK to share a land border with the EU, Northern Ireland is one of the parts of the UK most exposed to these issues, just as the Republic of Ireland is the EU member state arguably most exposed. This was made clear in a recent survey of CBI members based in Northern Ireland: when asked, 87.3% of respondents saw the UK leaving the EU as a threat to their organisation.

Throughout government, a greater understanding of the issues affecting Northern Ireland is needed so that business and government can work together to find solutions. In particular, an understanding of the scale of integration – both the integration between the North and South of Ireland, and the integration between the rest of the UK and the Republic of Ireland. Barriers to that integration must be avoided, and business is seeking greater clarity from the government on how it intends to avoid those barriers as the UK moves towards a new relationship with the EU, outside of the Single Market.

It is important to understand the distinct needs of Northern Ireland

Northern Ireland is uniquely exposed to the potential changes the UK's exit from the EU presents, as it is the only region of the UK that shares a land border with another EU member state. Over 32% of Northern Ireland's total exports go to the Republic of Ireland and this proximity has, over the years, led to ever increasing economic integration throughout the all-island single market. For that reason, a detailed understanding of Northern Ireland's distinct needs is required for those involved in the EU negotiations.

The Northern Ireland economy is structurally very different to the rest of the UK, marked by its overdependence on public sector spending and an underperforming private sector dominated by small and medium sized businesses. Productivity levels remain well below the UK average despite key sectors such as manufacturing and retail performing well. Unemployment levels (5.3%) are slightly higher than the UK average, but economic inactivity (26%) is much higher. Overall, the economic recovery in Northern Ireland remains fragile and many long standing structural issues are only now beginning to be addressed.

The agri-food sector is of particular importance to Northern Ireland. One of the few economic bright spots for Northern Ireland in recent years, the sector is heavily reliant on EU funding and barrier-free access to the Republic of Ireland and the rest of the European Union. It is also particularly reliant on EU workers. The NI Food & Drink Association, has estimated that 48% of their member's full-time employees, and 91% of seasonal contract agricultural workers, are EU nationals.[1]

The importance of Northern Ireland business' access to workers from abroad to bring in the skills they need to keep the economy moving is not limited to agriculture. CBI members in the region consistently report a shortfall in much needed skills, especially STEM focused skills, such as engineers and ICT professionals. This short-term need must come alongside greater business investment in skills.

[1] *Brexit: Challenges & Opportunities for Northern Ireland Food & Drink, NIFDA, November 2016*

And it is important to understand the lasting influence of the region's history on its social and economic fabric. For example, customs or security checks would be more than a barrier to trade, but an unwelcome reminder of the past. The continuation of a frictionless border between Northern Ireland and the Republic of Ireland is therefore vital because peace and prosperity go hand in hand. In a survey of CBI Northern Ireland member businesses conducted in January, 84% of respondents felt that leaving the EU would have a negative impact on political stability in Northern Ireland.

UK-Irish integration affects a wide range of aspects of many businesses across the whole UK

Quick Stats:

- Overall, in 2015 the UK exported goods and services to Ireland worth £26.1billion, and imported £17.7billion. 64% of those exports are goods, while 72% of Irish imports are goods.
- The UK exports almost 5 times as much to Ireland as we do to Denmark, an economy that is broadly similar in size to Ireland.
- The UK's leading goods exports to Ireland in 2015 were oil & gas products, worth £771million, accounting for 36% of the UK's exports of these goods.
- This was followed by medicines (£462million, 3%) computers (£458million, 16%), motor vehicles (£455million, 2%) and breads, pastries, cakes, etc, (£286million, 34%).
- For some goods exports, Ireland is by far the most significant market for UK exporters, and particularly in agriculture, food & drink.

Over the years, companies of every size and shape have structured themselves on the basis of the UK and Ireland having, in effect, a single market. Multinational businesses often treat the UK and Ireland as a single market, with subsidiaries, branches and governance strategies set up to reflect that thinking. Additionally, many companies based in both Northern Ireland and the Republic of Ireland have "all-island" strategies, with their structures established to allow a single point of management for both sides of the border.

Example: UK&ROI business

A multinational cosmetics company has a single subsidiary for UK and Ireland. While it has separate headquarters in London and Dublin, it has a single Chairman for UK and Ireland, and its operations are managed by a single team of "UKI" directors. The company runs all its internal processes at a UK and Ireland level – from its warehouses to its graduate trainee schemes. Managing at this scale is more efficient. **Brexit creates challenges for the easy transfer of people through the business – such as graduates trained in Manchester for employment in Dublin.**

Example: All-Ireland business

A technology services company operates an "all-Ireland" subsidiary. Its management team has "32 county responsibility". While this does require managing in-company differences on a daily basis – such as currency – the similarity of rules and ease of data flows provided by the UK and Republic of Ireland's EU membership means the differences are limited. **Brexit creates challenges if it creates regulatory divergence, resulting in multiple processes – particularly if there is no mechanism to freely transfer data between parts of the business.**

Example: UK&ROI financial services

A European financial services company runs a pensions business in the Republic of Ireland as a branch of its UK business. It is not large enough to function as a separate entity as a subsidiary. **Brexit creates challenges if this branch cannot be allowed to operate through passporting.**

Many Northern Ireland businesses are organised in all-island supply chains, with chains of production, inputs and outputs stretching from Cork to Coleraine. As a result of this integration and collaboration they are more productive, competitive, and economically successful – leading to more and better jobs and opportunities for citizens across the island.

Again Northern Ireland's disproportionately important agri-food sector is a good example of all-island sector. Profit margins in the agri-food sector are low. To remain competitive many firms have moved to an all-island economic model to drive the necessary economies of scale. 25% of Northern Irish milk and 36% of Northern Irish lamb is processed at plants located in the Republic of Ireland. Nor is trade all one way. Baileys liqueur produced in Dublin is sent to Northern Ireland to be bottled and then returned to Dublin for export.

In addition, firms throughout the island of Ireland use ports on both sides of the border to ship out their produce. Northern Irish fresh food suppliers servicing the South East of England take advantage of the Single Market to use ports located in the Republic of Ireland to ship out their produce as it is a faster, more efficient, route which allows them to make their delivery timelines. Travelling the other direction, 48% of the trade through Warrenpoint Port in Co. Down emanates from or goes to the Republic of Ireland.

Significant numbers of businesses also use England as a gateway to the Republic of Ireland – with deliveries from the continent travelling across the English Channel, across England, through to the Irish Sea. The same is true for export chains, with businesses based on the island of Ireland shipping across England to use the reliable Eurotunnel to transport goods to Continental Europe.

Example: Whole-island economy

A dairy company in Northern Ireland supplies milk as a raw material to a large processing company in the Republic of Ireland, which uses the milk to produce infant formula. The ROI company exports infant formula to China. **However, Brexit challenges this business model because - while China recognises EU milk producers as of a safe standard, there is no automatic recognition for UK milk producers once the UK leaves the EU.** If there is no clarity on this aspect, the ROI processor may be forced to exclude the NI supplier from its supply chain.

Example: Whole-island economy

A major bread company has a single factory for all its bread on the island of Ireland. In the early hours of each morning, lorries load with bread for distribution to retailers across the island. **Brexit challenges this carefully managed process by introducing the potential for delays, which could disrupt supply, and additional costs, which could put the firm at a competitive disadvantage in its Republic of Ireland market.**

Example: UK as a gateway to ROI

A consumer goods company manufactures all its clothing products in Asia. They are then shipped to its hubs in the North East of England. From there, the company co-ordinates distribution across the UK and Ireland. **If Brexit leads to barriers to trade, including non-tariff barriers such as brand licensing, these products may become more expensive for consumers.**

Example: UK as a gateway to ROI

When a company in Cork orders a product from a business based in the Netherlands, it is often not economical for the Dutch haulier to just make one stop. To pay its way home, the Dutch haulier may deliver first to Cork, then takes a consignment from Cork to Derry, then from Derry to Leeds, before driving back to the Netherlands. EU hauliers can be in another EU country for 7 days and make 3 movements. **Brexit challenges this business model: if EU hauliers are not able to make additional deliveries, it may make deliveries to both the UK and EU more expensive – and discourage EU hauliers from servicing both the UK and ROI.**

The Single Electricity Market (SEM) is another example of the importance of the all-island market. The first market of its kind in the world, the SEM has provided proven benefits for citizens and businesses in both the Republic and Northern Ireland. The SEM allows all electricity generated on the island to be pooled, bought and sold in one jointly administered mandatory marketplace. This collaboration enables greater economies of scale that is more attractive to investors, improves competition – thereby lowering costs for consumers – and improves security of supply. The energy sector in Northern Ireland is just too small and peripheral to efficiently run in isolation.

Many businesses located near the border employ a high percentage of Irish domiciled citizens who travel across the border each day to work. According to the 2011 Ireland and Northern Ireland Census, 14,800 people commute regularly between Ireland and Northern Ireland.[2] However, recent data suggests this Census data is vastly understating existing levels of regular cross border movement. 2015 Northern Ireland Department for Infrastructure traffic data suggests that a total of 326,577 journeys per week and 46,654 journeys per work day are made across the three major border crossings in Derry & Strabane District Council area alone.[3] Business urgently seeks the cooperation of government to research and publish up to date movement data that accurately represents the current level of cross border movement.

The flow of people is also important for tourism on both sides of the island. Tourism has been another bright spot for the Northern Ireland economy. In 2016 Tourism Ireland, a joint funded cross border collaborative body, estimated that over 2.1 million tourist visited Northern Ireland contributing over £527 million to the local economy. However, over 75% of tourists come to the region via the Republic of Ireland. There is a real concern within the industry that a 'hard' border will discourage tourists to make the cross border trip.

Barriers to integration may have unintended consequences

Whatever the final result of the UK's exit negotiations with the EU, it is vital that continued cross border all-island economic integration is supported. The all-island Market that has created thousands of jobs and can continue to do so when the UK leaves the EU by ensuring the minimum possible friction between regulations, standards and tariffs on goods and services and free movement of labour between Northern Ireland and the Republic of Ireland.

Recent UK-wide surveys of large companies have shown that some businesses, concerned that the UK and EU may be unable a deal, are considering the need to relocate some of their operations. Anecdotal evidence suggests that companies in Northern Ireland are disproportionately exploring this option. Being in such close proximity to another EU member state – with which the UK shares a language, timezone, and many aspects of culture – makes relocation less unattractive, particularly if it means no minimal disruption for staff members. Of course, this is true for businesses in the Republic of Ireland as well – but, clearly, the UK market is smaller than the EU one for many companies.

Example: Potential relocation

A medium-sized machinery company in County Tyrone sells its products to Europe and Africa. As they require very specialist parts, they import heavily: 80% of its costs are imports. The exchange rate has already significantly affected them, and customers are asking them to lower their prices. **Leaving the EU further challenges this company, as it is concerned about facing tariff and non-tariff barriers to both its imports and exports. Based on the progress of the negotiations, it will make a decision about relocating to the Republic of Ireland by summer 2018.**

---

[2] Central Statistics Office & NISRA, Census 2011 Ireland and Northern Ireland, p.60, 2014

[3] Initial Analysis of the Challenges and Opportunities of Brexit for the Derry City & Strabane and Donegal County Council area – Ulster University, February 2016

Example: Potential relocation

A company employs 1,000 people in Belfast. They provide multi-lingual customer services to technology companies. As they struggle to find enough people in Northern Ireland with foreign language skills, three quarters of their staff are from continental Europe. Most of these employees are young and stay for around 18 months, so the company has to recruit around 250 new people each year – often at just a few weeks' notice depending on client needs. **If the UK's immigration system after Brexit means they cannot quickly hire these people from the EU, the company may have to relocate some operations to the Republic of Ireland. While they do not want to leave Belfast, they have contingency plans in place and expect it would take them six months to move.**

Beyond the short-term concerns of relocations, there are long-term concerns about the effect additional barriers to business would have on the island of Ireland. Should the UK and EU prove unable to agree a comprehensive and effective deal, it is likely that businesses will increasingly turn inwards. The all-island market has meant companies have been able to benefit from the competitive effects of exposure to a larger market, and from economies of scale. These benefits are likely to be reduced if barriers are created, adding to the economic challenges in Northern Ireland. Businesses in Northern Ireland know that prosperity goes hand in hand with peace.

More information is needed to help reduce concerns about this relationship

Businesses will continue working in partnership with Government – providing the information Government requests and offering guidance from the experts that we have. These difficult issues can only be solved in partnership with industry. We have been encouraged by much of engagement that has been underway. But the Government needs to take one step further and now provide business with some of the conclusions it has drawn from the engagement of the last 7 months.

CBI members are looking for a plan which makes clear the practical actions the Government will take to ensure no new barriers are created which would affect the integration between the economies of Britain, Northern Ireland and the Republic of Ireland in the various possible outcomes of the negotiation, such as:

- A comprehensive free trade and customs agreement
- No customs agreement but some form of trade agreement
- No trade agreement and the UK-EU relationship is governed by WTO rules

The knowledge that the Government is preparing for all of these possible scenarios will offer much needed reassurance to businesses on both sides of the Irish Sea. The communication of a clear plan that provides the answers to how there will not, under any circumstances, be a harder border would remove the most immediate and significant concerns of companies in Northern Ireland, and so allow them to focus on the UK's long-term future outside of the EU.

For more information, please contact:
Iain Hoy
Senior Policy Adviser, Northern Ireland
Iain.Hoy@cbi.org.uk