

AN AGENDA FOR NORTHERN IRELAND AFTER BREXIT

*HOW TO BUILD A SECURE, PEACEFUL
AND PROSPEROUS FUTURE*



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AN AGENDA FOR NORTHERN IRELAND AFTER BREXIT

*How to build a secure,
peaceful and prosperous future.*

by Owen Polley and David Hoey

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An agenda for Northern Ireland after Brexit

INTRODUCTION

A new future for Great Britain and Northern Ireland

On the 23rd of June 2016 the United Kingdom held a referendum on its membership of the European Union. 17,410,742 people, 51.9 % of those who cast a valid vote, voted to leave the EU, while 16,141,241 voted for the UK to remain (48.1 %).¹

In the aftermath of the result, prime minister David Cameron announced his resignation, and he was replaced by Theresa May, on July 13th. In his resignation speech, Mr Cameron accepted that the referendum would be binding, saying "the will of the British people is an instruction that must be delivered".²

Mrs May quickly affirmed the government's commitment to leave the EU, asserting frequently that "Brexit means Brexit". At the Conservative Party's annual conference she pledged to trigger Article 50 of the Lisbon Treaty, starting a formal process of withdrawal from the Union, before the end of March 2017.³ She has since set out a framework for Brexit, and a White Paper has been published confirming the direction of travel.⁴

The prime minister intends to introduce a 'Great Repeal Bill' to parliament, repealing the 1972 European Communities Act that made European law part of the UK legal system and asserted its supremacy over British law. This legislation will absorb existing EU laws into UK law, so that they can be reviewed, amended and repealed, if necessary.

In Northern Ireland, more electors voted to remain in the European Union than to leave (440,707 to 349,442). However, the referendum was held nationwide, with no regional or national vetoes.

The prime minister, the Secretary of State for Northern Ireland, James Brokenshire, and his predecessor, Theresa Villiers, have all made it clear that the government will not consider exempting Northern Ireland from 'Brexit' or negotiating a 'special status' that preserves elements of EU membership not applicable to other parts of the UK.

Although there are still aspects of uncertainty around the terms under which we will leave the European Union, a broad plan to start that process is already being implemented. 'Brexit' will apply to the whole of the UK, without significant variations.

¹ EU Referendum, Electoral Commission website

² UK Government, EU Referendum Outcome: PM Statement, June 2016.

³ Foreign and Commonwealth Office, Consolidated Texts of the EU Treaties as amended by the Treaty of Lisbon, 2008.

⁴ Department for Exiting the European Union, The UK's exit from, and new partnership with, the European Union White Paper, 2 February 2017.

This paper examines the challenges and opportunities that leaving the EU presents for Northern Ireland. It focuses on the key areas that decision-makers at Stormont must address to promote our interests as the UK negotiates with Brussels and examines the preparations necessary to enable the Executive to ensure a secure, peaceful and prosperous region of the UK outside the EU.

EXECUTIVE SUMMARY: AN AGENDA FOR NORTHERN IRELAND AFTER BREXIT

Overview

- Northern Ireland's economic future will depend increasingly upon local businesses' ability to trade globally by taking advantage of new free trade deals.
- Building an open, responsive economy is central to creating a prosperous region within an independent UK. The potential to reform Northern Ireland's economy successfully will be, in some respects, greater outside the EU.
- Northern Ireland's constitutional position and political settlement are not affected materially by the UK's decision to leave the European Union. There is no impetus to head in any other direction, outside the EU, and, with constructive input from the British and Irish governments, there is no reason why any progress cannot be maintained.
- Brexit will bring about transformational change across the UK. For Northern Ireland's policy makers, it could be a catalyst to look outward to the world and create a successful region that trades and exchanges ideas globally.

Economy

A fresh start

- Decision makers will have greater flexibility as they look to tackle economic problems, outside the constraints of EU regulations like state aid laws, tax restrictions and employment legislation.
- The Executive has the option to focus on skills and education for Northern Ireland's workforce, rather than over-focussing on maintaining the flow of migrant labour. It could create opportunities to reach people who have become economically inactive, alongside a strategy addressing other factors like dependency and a culture of joblessness. Any initiative of this type would be most effective if public agencies work closely with partners from the industries most closely affected.
- There will be more potential to address long-standing issues with the competitiveness of the labour market in Northern Ireland. Likewise, policy-makers can focus help to companies on areas of particular economic importance, especially with research and development.
- Leaving the EU may provide an incentive to remodel our economy and it is highly likely that Brexit will make the Executive freer to prioritise private sector growth, if it chooses to pursue that policy aim.

- Economic success after Brexit will depend upon Northern Ireland's ability to trade with the rest of the world. Our economy's over-reliance on the public sector, and its lack of productivity, could potentially become greater obstacles, as we look to compete more effectively in global markets.
- Some 16.4% of external sales are destined for the Republic of Ireland, which makes it our second biggest external market, though this number is dwarfed by the 55.5% of exports destined for Great Britain. If tariffs are introduced on goods imported to the UK, local exporters may have an opportunity to displace imports to Great Britain, and in particular the South East of England, with imports from Northern Ireland.
- Current links with the Republic of Ireland, based on common ownership, geography and culture will remain when Northern Ireland leaves the EU. Tariffs are possible, though their effects would be small compared to fluctuations in currency (19% for Euro-Sterling rate in last 12 months).
- Brexit is the time to refocus on the task of creating a competitive, open economy. The prime minister's says she aspires to make the UK the "strongest global advocate for free markets and free trade". Against that backdrop, there are opportunities for Northern Ireland to address issues of competitiveness, lower barriers to investment and upskilling its workforce.

Global Trade

- If the UK is to become "the biggest global advocate" of free trade, Northern Ireland could have unprecedented access to some of the quickest growing markets around the globe.
- Businesses will rely upon effective local signposting of any 'trade push' by the UK government, after Brexit takes place; including participation in national initiatives such as GREAT.gov.uk
- Many of the challenges involved in selling to the rest of the world and attracting inward investment, after we leave the EU, are familiar already:
 - Commit to a restructured economy that favours a vibrant private sector rather than an unproductive public sector.
 - Tackling issues of uncompetitiveness.

- Providing companies with the skills they require.
- Helping SMEs to grow and access the help they need.
- Improving proficiency in foreign languages.
- Fostering a culture of enterprise and entrepreneurship.
- Offering low business taxes.
- Encouraging effective research and development.

Opportunity Brexit

- Northern Ireland's principle focus, once Article 50 is triggered, must be on trading more effectively around the globe, helping companies to grow and attracting FDI, rather than on replacing EU funds or maintaining public spending.
- Brexit is an opportunity to transform attitudes in Northern Ireland. The economy can genuinely become the main focus of public policy. Northern Ireland will have little choice but to compete effectively with the rest of the world, if we wish to prosper outside the EU.

Sovereignty, the border and the constitution

Confident and outward looking

- With a positive approach to Brexit, Northern Ireland has the chance to play an enhanced role within a United Kingdom with greater independence of action, with the potential to grow our economy and build an inclusive society.

The Irish border

- The two governments already collaborate extensively on immigration and Brexit requires only a deepening of this existing collaboration. Some of this necessary work is underway already.
- Technology and automated border clearance systems have made the need for disruptive customs checks redundant, even where so-called 'hard borders' exist.
- The outstanding practicalities are likely to include;
 - a. maintaining the CTA and deepening cooperation over monitoring its perimeter (a responsibility that the two governments share)
 - b. ensuring that adequate systems are in place to enable quick and easy customs checks, should the need arise. The latter burden will fall most heavily on the Irish government in conjunction with the European Union.

Peacebuilding and community relations

- EU PEACE funds have been guaranteed for the immediate future. Looking ahead, particularly beyond 2020, decision-makers in Northern Ireland will want to consider their spending priorities and the most effective ways in which to use public funds. It is worth noting too that by 2020 it will be more than 20 years since the Good Friday Agreement and the argument of the need for EU funding will be wearing a bit thin.
- INTERREG funds have also been guaranteed to 2020, though these funds are Europe-wide and should not be considered as exceptional.
- Any success in building more positive community relations in Northern Ireland is grounded on constructive attitudes between people here, the efforts of the two governments and an improved relationship between the UK and the Republic of Ireland, rather than common membership of the EU. All the conditions are in place to maintain that project after Brexit, and to deepen the relationships that underpin it, as well as cultural and economic links, shared rights and citizenship, so long as the necessary political will remains.

European Law

- The OFMDFM's 'Preliminary Analysis' raises the possibility that a "significant workload" will be required to disentangle the NI statute book. Northern Ireland policy makers will want to weigh that assessment against the ongoing process of implementing EU legislation being conducted by the UK government.
- The Executive will wish to review the effects of existing EU laws and regulations across its devolved competencies. The House of Commons library estimated that 50% of legislation with 'significant economic impact' derives from the EU and that is in addition to 'soft law', including communications, declarations, recommendations, resolutions, statements, guidelines and special reports from EU institutions, as well as rulings from the ECJ.
- While dismantling EU law may be an administrative challenge, it is also a significant opportunity for policy-makers to boost the economy in Northern Ireland.

Agriculture and fishing

Sustainable farming

- The Executive has an opportunity, in conjunction with HM Treasury, to design a scheme of subsidy that is tailored to Northern Ireland's particular needs, wastes less money, improve efficiency and benefits farmers more directly.

- As policy-makers in Northern Ireland look toward the future, they will wish to consider how to make farms sustainable in the longer-term and improve efficiency in the industry.
- There are significant opportunities for Northern Ireland produce to displace EU imports to the rest of the UK, particularly to the south east of England.
- In the longer term, the advantages to consumers of lower cost imports will have to be weighed against their impact on producers.
- Agriculture is a devolved policy area and leaving the EU will give local decision-makers more room for manoeuvre. The Executive is likely to have responsibility for distributing subsidies to farmers, possibly using a scheme of its own design, whereas CAP was subject to strict EU rules.
- There will be opportunities to lift the burden of regulation on farmers. One prominent example is in the area of scientific innovation and crop yields. The UFU has argued for, "a simplified regulatory burden based upon science and applying an 'advocacy first, regulation second' approach".
- The Executive will wish to help create an open, sustainable industry, that focuses on its strengths and on products that have added value, rather than relying on subsidy. They will want to ensure farming here is competitive and efficient, while striving for fairness and balance along the food supply chain

Fishing

Decision makers will wish to address issues around the Irish Sea cod fishery, where the species' recovery has not been reflected in a raised TAC.

- Policy-makers will wish to investigate how the burden of regulation that currently hampers the commercial fishing industry can be eased. Northern Ireland fishermen are likely to be constrained by some regulations if they wish to sell their products in the EU market and the shape of any trade deal will determine the overall room for manoeuvre. The Executive may have powers to change some laws relating to the environment and fish stocks, that industry representatives insist are outdated and ineffective.
- Leaving the EU opens up more possibilities for policy-makers to introduce a new management system that learns from the successes of Iceland, the Faroe Islands and Norway, when responsibility for fishing is returned from Brussels in the first instance to Westminster and then to Stormont.

Immigration

Open, but in control

- If fewer people, particularly from eastern and central Europe, come to Northern Ireland to work, it will create policy challenges for the Executive, but there will also be benefits and opportunities.
- Northern Ireland and the rest of the UK will always be open to new arrivals. Our community is likely to become more diverse, and that is a strength rather than a weakness. However, outside the EU, policy makers must think meaningfully about how that happens.

AFTER THE REFERENDUM

Post referendum – the current political context

During the EU referendum campaign, a number of possible models for Brexit were explored. These ranged from remaining a member of the European Economic Area (EEA), which provides tariff-free access to the single market and customs union and adopts significant aspects of EU law (as is the case for Norway) – to a 'clean break', dismantling more thoroughly legal constraints associated with the 'single market' including the 'four freedoms' of free movement of persons, goods, services and capital.⁵

Once article 50 is triggered, the shape of Brexit will be determined after the subsequent negotiations between the government and the EU. The prime minister has rejected the popular terms 'hard Brexit' and 'soft Brexit', insisting that her goal is a fully independent, sovereign country, enjoying "the kind of mature, cooperative relationship (with the EU) that close friends and allies enjoy".⁶ The Prime Minister has outlined the framework of the Government approach to negotiations, and this has been followed with a White Paper.⁷

The government's aspiration is to give British companies "maximum freedom" to trade with the remaining twenty-seven countries, but it wishes to set its own immigration controls, without interference from the EU, and end the European Court of Justice's over-arching jurisdiction in the UK.

It is probable that some member state leaders and the Commission President, Jean-Claude Juncker, will argue that tariff free access to the single market is dependent upon accepting free movement of EU workers.⁸

It is likely that the official process of withdrawal will start within or close to the timetable laid out by the UK Government, but the details of Brexit, particularly as regards trade, may be subject to wider discussion and influence by parliament before formal negotiations begin.⁹

The UK is still in a strong position to negotiate a beneficial trade deal with the European Union. It will become the biggest external market for EU goods when it leaves, and the twenty seven other EU member states currently export £61.7 billion more goods and services to the UK than we sell to the rest of the EU.^{10 11}

⁵ Norway: Mission to the EU website, The European Economic Area Agreement.

⁶ House of Commons' Hansard, Volume 616, 24 October 2016.

⁷ Department for Exiting the European Union, The UK's exit from, and new partnership with, the European Union White Paper, 2 February 2017.

⁸ Euractive.com with Reuters, 'Juncker tells UK: No single market without freedom of movement', 26 July 2016.

⁹ Peter Stewart, Heather Stewart, 'Keir Starmer: Labour will not block Article 50 but must know plan', *The Guardian*, 7 November 2016.

¹⁰ Ryan Bourne. 'The EU Jobs Myth', Institute of Economic Affairs, March 2015.

¹¹ ONS, The Pink Book, 2015.

If the European Union refuses to negotiate a free trade deal with the UK, it will be a colossal exercise in self-harm. However, against a backdrop of political recriminations, divisions and uncertainties within the EU, it is possible, that in the short term at least, some tariff barriers are applied.

Irrespective of the precise terms under which the UK leaves the European Union, Brexit is likely to create the freedom to make trade deals independently with the rest of the world. **Northern Ireland's economic future will depend increasingly upon local businesses' ability to trade globally by taking advantage of such deals.**

Political decision-makers have the challenge of creating an environment where the opportunities of withdrawing from the EU can be exploited, while also minimising the effects of any potential threats to our economy and society.

Northern Ireland – the opportunity to flourish in post-Brexit UK

The referendum resulted in an unexpected but clear decision that the UK will leave the EU. Although the details of Brexit are uncertain, and there is scope to promote the type of settlement that would benefit Northern Ireland most, there is less value in revisiting arguments from the original campaign. The most important policy debate about withdrawal, regionally, will deal with how best to flourish outside the EU and overcome any difficulties that leaving might present.

Many of the key issues around Brexit centre on the economy and, in Northern Ireland, they are linked to broader economic challenges that predate the referendum. There have been questions raised about the practical implications of the island of Ireland containing a land border between the United Kingdom and the European Union. *Oddly, little attention to the greater challenge of the primary destination and trade route to the continent for Republic of Ireland's exports and imports, relies upon access to the United Kingdom.* These have been connected to a discussion about whether the pending change will affect the constructive relationship that the UK and the Republic of Ireland currently enjoy, or the relationships between all governments and assemblies across these islands – though there has been little indication of why these should or would deteriorate.

The Executive's economic strategy has already identified the need for Northern Ireland to "increase our export focus ... and diversify into new markets".¹² **Building an open, responsive economy is central to creating a prosperous region within an independent UK. The potential to reform Northern Ireland's economy successfully will be, in some respects, greater outside the EU.**¹³

¹² Northern Ireland Executive, Economic Strategy, 2012.

¹³ Graham Brownlow, 'Opportunity Brexit? Institutional Economic Implications for Northern Ireland', Northern Ireland Assembly Knowledge Exchange Seminar Series, 2016

Both the British and Irish governments are determined that the frontier between their two countries will remain open and low key. Much of the commentary in this area stems from misunderstandings about how modern customs controls and immigration laws are applied. The greatest challenges are likely to be practical matters of technology and protocol, rather than policy – that are the responsibility of the governments in Dublin and London, rather than the Northern Ireland Executive.

The Supreme Court recently rejected the idea that the Good Friday Agreement, which underpins the power-sharing settlement at Stormont, is dependent upon membership of the EU. **Northern Ireland's constitutional position is not affected materially by the UK's decision to leave the European Union and, with constructive input from the British and Irish governments, there is no reason why any progress cannot be maintained.**¹⁴

Some aspects of Brexit are still uncertain and it is easy to use uncertainty to conjure up frightening scenarios. However, the European Union is also beset with uncertainties, as it struggles with an unprecedented influx of refugees, its own political divisions and crisis in the Eurozone. All of the EU's internal problems and contradictions will remain or deepen, after the UK leaves.¹⁵

In Northern Ireland, our economy has stagnated for many decades because of an over-reliance on the public sector and there is political consensus that it can only be invigorated by private sector growth, driven by exports and inward investment. **Brexit will bring about transformational change across the UK. For Northern Ireland's policy makers, it could be a catalyst to look outward to the world and create a successful region that trades and exchanges ideas globally.**

¹⁴ RTE, 'Govts want "seamless, frictionless border after Brexit, says May', 30 January 2017.

¹⁵ Global Britain, Secure, Peaceful and Prosperous – Why Northern Ireland would be better leaving the EU, 2016

BUSINESS AND THE ECONOMY

A fresh start for Northern Ireland's economy

The outgoing Northern Ireland Executive consulted previously on its draft Programme for Government (PfG) for 2016-2021. In line with previous documents, it places heavy emphasis on the economy, listing at the top of its 'framework' of desired outcomes, prosperity "through a strong, competitive, regionally balanced economy". Success in achieving this outcome will be indicated by increased private sector activity, rising external sales and a number of other measurements.¹⁶

The Executive identified the competitiveness of Northern Ireland's economy as one of the main issues it faced during its mandate, highlighting in particular the need to strengthen 'export led growth'.

"It is important that companies can diversify the markets to which they export by identifying new emerging and developed markets and taking the opportunities to capitalise on these. Research shows that exporting companies are larger, more productive, pay higher wages and are more capital intensive than those which focus mainly on domestic markets."

Currently, manufacturing dominates sales external to Northern Ireland. The United States comprises our biggest market outside Great Britain and Ireland, with 9.5% of external sales, followed by Canada (6.3%). During the period 2001-2011, the greatest growth in exports, albeit by percentage change in value, lay in emerging markets like Kuwait (+1839%), Saudi Arabia (+1197%), Russia (+726%), Thailand (+524%) and China (+408%), in conjunction with the more established Australian market (+975%).¹⁷

The need for a nimble, open economy, driven by a growing private sector, is recognised by policy makers and economists. The Executive acknowledged that, to achieve this outcome, Northern Ireland must become more competitive economically and that our businesses must sell to a wider array of markets, particularly emerging markets outside the EU. Among its key aims in its draft industrial strategy to build a successful "Economy 2030" in Northern Ireland, the Department for the Economy (DfE), included "succeeding in global markets", "driving inclusive sustainable growth" and "enhancing education, skills and employability".¹⁸

The biggest economic challenges that we face predate the UK's decision to leave the European Union, but Brexit puts the need to reform the Northern Irish economy into even sharper focus. **Decision makers will have greater flexibility as they look to tackle economic problems, outside the constraints of EU regulations like state aid laws, tax restrictions and employment legislation.**

¹⁶ Northern Ireland Executive, Programme for Government Consultation Document, 2016.

¹⁷ RSM McClure Watters, Research into Growing and Diversifying the Northern Ireland Export Base, October 2014

¹⁸ DfE, Economy 2030 – a consultation on an Industrial Strategy for Northern Ireland, 24 January 2017.

So far, to the point of obsession by some participants, political debate has focused on the potential *problems* that Brexit could create for our economy. There has been less discussion of the prospective *opportunities* it presents to tackle some of the longer term economic problems afflicting Northern Ireland. **Leaving the EU may provide an incentive to remodel our economy and it is highly likely that Brexit will make the Executive freer to prioritise private sector growth.**

An open, responsive economy

Northern Ireland's private sector has grown at a modest rate and its employment rate has risen - according to the latest statistics - but the economy lags behind the rest of the UK and the Republic of Ireland.

In its latest monthly update for October 2016, the DfE reported that local economic activity increased by 1.6% over the 12 months to June 2016.¹⁹ The overall UK growth rate was 1.8%. The proportion of people of working age in employment stands at 70.1% in Northern Ireland, compared to 74.5% nationally.²⁰ However, the gap is likely to widen in 2017, with average growth in the UK expected to reach 1.1%, while some forecasters say that Northern Ireland will barely avoid recession, its economic activity growing by just 0.2%.²¹

Although the legacy of civil disorder during 'The Troubles' was blamed traditionally for our sluggish economy, commentators point increasingly to underlying problems with its structure.²² Northern Ireland's public sector employs almost one third of the workforce.²³ Disproportionately high public spending and low productivity contribute to a comparatively uncompetitive private sector.

The Economic Advisory Group, (EAG) which provides independent advice to the DfE, published its first 'competitiveness scorecard' for Northern Ireland, in July 2016. Across eleven measurements described as 'pillars' of competitiveness, the EAG rated Northern Ireland's economy above average in just one. There were particularly pressing problems around productivity, business performance and innovation, research and development.²⁴

Considering the relatively poor score for business performance, the EAG notes with concern that 'public administration' was the only sector in Northern Ireland where growth was more rapid than in the rest of the UK.

"The majority of private sector services industries lagged their UK counterparts, which demonstrates the challenges in terms of rebalancing toward a larger, more vibrant private sector in NI".

¹⁹ Department for the Economy, DfE Monthly Economic Update, October 2016.

²⁰ Office for National Statistics (ONS), UK Labour Market, October 2016.

²¹ PWC, UK Economic Outlook, July 2016.

²² Editorial, 'A New Kind of Trouble', *The Economist*, 24 January 2015.

²³ DfE, Quarterly Economic Survey, June 2016.

²⁴ EAG, Competitiveness Summary, July 2016.

Although decision-makers have identified the need to revitalise Northern Ireland's private sector, public policy has not always reflected this priority sufficiently. Analysing the draft PfG against the likely effects of leaving the EU, University of Ulster economist, Graham Brownlow, noted that its forty two 'indicators' of success are "tilted towards those requiring additional expenditure"²⁵: that is, more public sector funding.

Economic success after Brexit will depend upon Northern Ireland's ability to trade with the rest of the world. Our economy's over-reliance on the public sector, and its lack of productivity, could potentially become greater obstacles, as we look to compete more effectively in global markets.

Brexit means it is the ideal time to refocus on the task of creating a competitive, open economy. The prime minister's says she aspires to make the UK the "strongest global advocate for free markets and free trade, because we believe they are the best way to lift people out of poverty". Against that backdrop, there are opportunities for Northern Ireland to address issues of uncompetitiveness, lower barriers to investment and upskill its workforce.

Maintaining trade with the EU

The prospects of a favourable trade deal with the European Union, in the event of Brexit, were debated vigorously during the referendum campaign, and remain a source of speculation after the result. A deal with the EU is not required to ensure 'access' to the single market, but the Union could choose to levy tariffs on goods it imports from the UK, if the UK leaves the customs union. Similarly, the United Kingdom will be free to set its own tariffs, outside the constraints of the EU customs bloc.

The UK retains a strong negotiating position, because it imports substantially more goods from the rest of the EU than it exports in the other direction (some £61.7 billion).²⁶ However, there are legitimate concerns that reaching a free trade agreement might prove difficult or time-consuming. A prospective deal can be discussed during the two years of negotiations that take place after Article 50 is invoked, but it will require ratification by all member states, if it affects certain areas of policy.²⁷

The think-tank Civitas has calculated likely tariff costs, were the UK to leave the EU, without a trade deal. British exporters would face a potential impact of some £5.2 billion on goods being sold to the European Union, whereas EU exporters would face £12.9 billion in tariffs for goods sold to the United Kingdom. France and Germany would be particularly adversely affected, while 22 out of 27 remaining states would pay more tariffs to the UK than they receive in return.²⁸

²⁵ Ibid.

²⁶ ONS, Pink Book, 2015.

²⁷ Raoul Ruparel, 'The mechanics of leaving the EU – explaining Article 50', Open Europe, February 2015.

²⁸ Civitas, Potential Post-Brexit Tariff Costs for British Trade, October 2016.

If the UK were to leave the EU Customs Union, imported goods would not be subject to the common external tariff, which could make imports cheaper, but may require exporters to the EU to comply with complicated Rules of Origin regulations.

Some commentators argue that Northern Ireland will suffer disproportionately if the UK fails to secure an agreement for tariff free trade with the single market, because Northern Ireland has a land-border with another EU member state. **Some 16.4% of external sales are destined for the Republic of Ireland, which makes it our second largest external market, though this number is dwarfed by the 55.5% of exports destined for Great Britain.²⁹ If tariffs are introduced on goods imported to the UK, local exporters may have an opportunity to displace imports to Great Britain, and in particular the South East of England, with imports from Northern Ireland.**

Later in this document, the prospects of maintaining a constructive partnership with the Republic are considered in greater detail. It is noted that both the British and Irish governments are committed to minimising the impact of a border between the UK and the EU on this island, and that the peace agreements here are grounded on secure, long-term relationships.

Current links with the Republic of Ireland, based on common ownership, geography and culture will remain when the UK leaves the EU. Tariffs are possible, though their effects would be small in comparison to factors such as fluctuations in currency where the Euro-Sterling rate has varied over 19% in the last year. The single market also involves non-tariff barriers, like product standards and regulations, but these will be met by most industries initially, even though the UK may subsequently decide to set requirements that diverge from those of the EU. The most successful companies are already accustomed to meeting different standards in different markets.

Education and scientific research are both vital to the economy and some universities have expressed anxiety that research funding may be jeopardised by Brexit. The government eased these anxieties by "underwriting" these EU funding streams, like Horizon 2020.³⁰ The Prime Minister has stressed the importance of remaining in research collaboration fields which, although they are often run by the EU, do not restrict access to institutions in EU member states.

Businesses in some sectors in Northern Ireland, like hospitality, social care and food processing, are most concerned that they will be unable to recruit enough staff, if free movement of workers between the EU and the UK is restricted, after Brexit. These issues are not unique to Northern Ireland. For example, there are concerns about the impact on the NHS nationally and on fruit and veg growers in the South East of England. Employers have already been obliged to raise wages for this type of employment, due to the government's 'living wage' policy and further increases are planned.³¹

²⁹ Northern Ireland Executive, Economic Strategy, 2012.

³⁰ John Morgan, 'Treasury to guarantee post-Brexit funding for research projects', *Times Higher Education*, 13 August 2016.

³¹ The National Living Wage website.

Policy-makers in Northern Ireland may argue that maintaining companies' access to labour from eastern and central Europe, or elsewhere, should be a high priority for the government, when it negotiates with the European Commission. The Northern Ireland Food and Drink Association has suggested that responsibility for setting regional migrant targets should be devolved to Stormont, for instance.³² The prime minister has emphasised, however, that she wants to control immigration in the aftermath of Brexit. It seems unlikely that the government will accept a deal including the free movement of workers, because it believes that concern about immigration influenced the result of the referendum.³³

The Executive has the option to focus on skills and education for Northern Ireland's workforce, rather than over-focussing on maintaining the flow of migrant labour, an approach that complements the DFE 'Economy 2030' document's emphasis on improving competitiveness. It could create opportunities to reach people who have become economically inactive. Current rates of inactivity are substantially higher in Northern Ireland than in the UK as a whole (21.5%).³⁴

It may not necessarily be easy to replace these workers with people who become unemployed over the longer term, but it could provide the Executive with another tool to tackle economic inactivity, alongside a strategy addressing other factors like dependency and a culture of joblessness. Any initiative of this type would be most effective if public agencies work closely with partners from the industries most closely affected.

Building links with markets outside the EU

The Executive has identified that economic success for Northern Ireland depends upon businesses exporting more goods to a more diverse range of markets. Our exports to Asia, Russia and Australasia are growing in relative importance.³⁵ Meanwhile, the EU, and particularly the eurozone, is experiencing low rates of economic growth, compared to the rest of the world.³⁶

Three of the NI Executive's four 'international outreach' operations are already situated outside the EU. These include the Northern Ireland Bureau in North America, which has offices in New York and Washington DC, and the Northern Ireland Bureau in China.³⁷ A new emphasis on trade may make it worthwhile investigating moving the Brussels office to Germany, or opening new outreach operations in target markets like Dubai or Bahrain as a sales post to the Middle and Near East, Singapore as a sales post to the Far East, or perhaps Brazil to South America.

³² NIFDA, Brexit: Challenges and Opportunities for Northern Ireland Food and Drink, November 2016.

³³ Peter Dominiczak, 'Theresa May says Donald Trump's victory shows why Britain needs to control immigration', *Daily Telegraph*, 14 November 2016.

³⁴ DfE, Labour Force Survey, October 2016.

³⁵ Ibid.

³⁶ PWC, The World in 2015, February 2015.

³⁷ NI Bureau website.

The quality of trade deals with the rest of the world is likely to be important, whenever the UK leaves the European Union. While the EU itself comprises a large market, it has a poor record of brokering free trade agreements with larger countries outside its borders.

If the UK is to become "the biggest global advocate" for free trade³⁸, Northern Ireland could have unprecedented access to some of the fastest growing markets around the globe.

The UK and Australia have already formed a bilateral Trade Working Group, with a view to brokering a deal quickly after Brexit.³⁹ Despite his protectionist rhetoric, the new president-elect, Donald Trump, wants Britain 'at the front of the queue' for an agreement with the United States.⁴⁰ One of Trump's key Republican allies, House Speaker Paul Ryan, has urged the administration to open talks with the British government immediately, about a new trade agreement.⁴¹ Brexit minister, David Davis, believes bilateral agreements can also be negotiated reasonably swiftly with China, Canada, Hong Kong, India and South Korea.⁴²

It is likely to become ever more important for Northern Ireland to have deeper links with all these economies, in the years after we leave the EU. The Executive conducts its own outreach and delegations, either through its offices or bodies like Invest NI, but Northern Irish companies can also access the existing network of British embassies and other agencies, and participate in national initiatives such as Exporting is GREAT.go.uk.

Businesses will increasingly rely upon effective local signposting of any 'trade push' by the UK government, after Brexit takes place.

Northern Ireland's economy is dominated overwhelmingly by small and medium sized enterprises (SMEs), The sector contributes 70% of private sector turnover and over 75% of private sector employment.⁴³ SMEs confront particular difficulties conforming to trading regulations in external markets.⁴⁴ Yet Northern Ireland will be dependent upon these companies exporting goods and growing.

Many of the challenges involved in selling to the rest of the world and attracting inward investment, after we leave the EU, are familiar already.

- **Restructuring the economy so that it favours a vibrant private sector rather than an unproductive public sector.**
- **Tackling issues of uncompetitiveness.**
- **Providing companies with the skills they require.**
- **Helping SMEs grow and access the help they need.**
- **Improving proficiency in foreign languages.**

³⁸ Ibid.

³⁹ Steve Cannane, 'Australia and UK take first step to post-Brexit free trade deal', *ABC News*, 6 September 2016.

⁴⁰ The Lawyer, 'President Trump: Will UK business be back of the queue?', *TheLawyer.com*, 9 November 2016.

⁴¹ Karoun Demirjian, 'Paul Ryan urges new trade deal with Britain after Brexit', *Washington Post*, 29 June 2016.

⁴² Patrick WIntour, 'Global trade deals will be bigger outside than in the EU, says David Davis', *The Guardian*, 14 July 2016.

⁴³ FSB (Northern Ireland), *The Importance of Small Businesses to the Northern Ireland economy*, 2015.

⁴⁴ RSM McClure Watters, *Research into Growing and Diversifying the Northern Ireland Export Base*, October 2014.

- **Fostering a culture of enterprise and entrepreneurship.**
- **Offering low business taxes.**
- **Encouraging effective research and development.**

Competing and growing

Northern Ireland's competitors include economies around the globe, and neighbouring markets in the Republic of Ireland and Great Britain. The Executive has claimed some success in attracting foreign direct investment (FDI) to Northern Ireland and powers to cut Corporation Tax will be devolved in the hope of attracting more companies.^{45 46}

There is some disagreement about the degree to which lower corporate tax rates in the rest of the UK will affect Stormont's plans.⁴⁷ Likewise, there are suggestions that Northern Ireland will be a less attractive destination for FDI, outside the European Union. On the other hand, in a preliminary analysis of the likely effects of Brexit, prepared for OFMDFM, the European Policy and Coordination Unit concluded, "FDI into (the Republic of Ireland) could be undermined by unfair UK competition".⁴⁸ Or put another way, the UK has the capacity to out-compete the Republic of Ireland, which is an odd worry for public sector officials in a region of the UK.

It is uncertain whether the Republic can maintain its low tax model, after the European Commission asserted that Dublin had given €13 billion illegal tax benefits to Apple.⁴⁹ The Commission's proposed Common Consolidated Corporate Tax Base supports the idea that the EU is moving toward a common corporate tax regime, with member states enjoying less autonomy over their tax affairs.⁵⁰ Also, once the UK leaves the single market the export of turnover by multinationals from the UK to be taxed in the Republic of Ireland will cease. This has been estimated as being worth £10 billion to the UK with the Republic of Ireland and Luxembourg the main beneficiaries.⁵¹

The economist Stephen Moore, who is an influential advisor to US President-elect Donald Trump, believes that a cut in Corporation Tax can still benefit Northern Ireland considerably. "Capital flows to where it is treated most kindly. Taxes aren't the only thing, but they do matter", he told BBC Radio Ulster.⁵²

⁴⁵ Clare Weir, 'Foreign Investment in Northern Ireland rises 41% in one year', *Belfast Telegraph*, 24 July 2013.

⁴⁶ Corporation Tax Act (Northern Ireland) 2015.

⁴⁷ James Tapsfield, 'Furious Brixeteers hit out at Theresa May for 'fueling uncertainty' after she hints at transitional EU deal to appease city', *Daily Mail*, 21 November 2016.

⁴⁸ European Policy and Coordination Unit (OFMDFM), Preliminary analysis on the impact of a UK Referendum on its membership of the European Union, May 2015.

⁴⁹ European Commission Press Release, 'State Aid: Ireland gave illegal benefits to Apple worth up to €13 billion', 30 August 2016.

⁵⁰ European Commission, Common Consolidated Corporate Tax Base.

⁵¹ The UK's lost tax and GDP revenues, Brexit Paper #4, Global Britain, 6 December 2016

⁵² John Campbell, 'Donald Trump's plan to cut US corporation tax 'could impact on Northern Ireland jobs'', BBC website, 15 November 2016.

The House of Commons' Northern Ireland Affairs Committee found that leaving the EU could give the government and the Northern Ireland Executive flexibility to pursue policies that make Northern Ireland more attractive to foreign investment.

"EU rules prevent the UK Government from setting a lower rate of Corporation Tax in Northern Ireland. The responsibility has had to be devolved, which has taken time to achieve, whereas if the rate had been lowered, say, five years ago, much more FDI could potentially have been attracted to Northern Ireland by now. Furthermore, EU rules prevent the UK government from lowering the rate of VAT for tourism in Northern Ireland, which is another tax that compares unfavourably with the rate in the Republic of Ireland, where tourism appears to have been boosted by the lowering of their rate of VAT."⁵³

In addition, **there will be more potential to address long-standing issues with the competitiveness of the labour market in Northern Ireland and energy regulation. Likewise, outside EU state aid laws, policy-makers are freer to provide assistance to companies in areas of particular economic importance, like research and development.**⁵⁴

Opportunity Brexit

Northern Ireland may encounter challenges as the UK leaves the EU, but many of these challenges existed before the referendum and there are opportunities to prosper after Brexit and prepare for its implementation. These opportunities coincide with policy-makers' stated objectives of driving private sector growth in an open, competitive economy, that is responsive to the requirements of businesses and potential investors.

Northern Ireland's focus, once Article 50 is triggered, need not be on replacing EU funds or maintaining public spending, but rather on trading more effectively around the globe, helping companies to grow and attracting FDI.⁵⁵

Free markets are often accompanied by free movement of labour, but the EU links that concept to free access to state benefits and a range of other entitlements. If the UK government restricts the number of European Union migrants taking up lower skilled jobs here, the Executive has a chance to combat economic inactivity in Northern Ireland and mobilise the longer-term unemployed.

Our decision-makers will have new options added to the existing levers available to attract investment, incentivise growth and reward innovation. Northern Ireland will be outside restrictive EU laws around employment, state-aid, competition and product regulation. The UK will launch a post-Brexit trade push, that our companies can use to their advantage.

⁵³ House of Commons – Northern Ireland Affairs Committee, Northern Ireland and the EU referendum, 25 May 2016.

⁵⁴ Pinsent Masons / CBI / Morgan McManus, Comparative analysis of employment law in Great Britain, Northern Ireland and the Republic of Ireland, February 2013.

⁵⁵ Ibid.

There will be roughly two or three years to prepare for leaving the EU and it is important to use that window effectively.

Most importantly, Brexit is an opportunity to transform attitudes in Northern Ireland. The economy can genuinely become the main focus of public policy, with the decision making architecture and capacity to match. Our focus can shift from maximising public spending, to ensuring that the money we spend is targeted effectively. To prosper outside the EU, Northern Ireland will have little choice but to compete effectively with the rest of the world.

SOVEREIGNTY, THE BORDER AND THE CONSTITUTION

A confident, outward-looking Northern Ireland, within an independent UK, after Brexit

Northern Ireland is a relatively small part of the UK, but in a vast European Union of half a billion citizens, with tenuously accountable institutions, its voice is tiny. As a constituency of the European Parliament, we elect 3 MEPs to a body comprising 751 members. In contrast, the Secretary of State for Northern Ireland sits in the cabinet, while Northern Ireland returns 18 MPs to the 650 member House of Commons, exercising considerable influence, especially as UK governments often have small majorities. Powers over a range of policy areas are devolved to the Northern Ireland Assembly.⁵⁶

There is broad political agreement that our economic prospects can only be improved by private sector growth, stimulated by exports and a global outlook.⁵⁷ Progress toward that goal is patchy, but Brexit offers an incentive to play an enhanced role within a United Kingdom that dismantles trade barriers with economies around the world.⁵⁸

After the UK leaves the EU, the Assembly will find itself with greater independence over areas of devolved policy that are currently affected by EU rules.⁵⁹ For instance the freedom to reform employment law can be particularly valuable to Northern Ireland, which ranks poorly in the OECD's league table for employment flexibility and suffers from the effects of an overbearing public sector.⁶⁰ The Executive will have greater flexibility over industrial and agricultural policy. The UK, and Northern Ireland, will operate outside the constraints of the ECJ and the body of existing EU law will be capable of repeal and amendment.

For the time being the Republic of Ireland will remain a member of the European Union, after Northern Ireland leaves. This may mean some practical adjustments, although it need not affect close links of friendship, culture and trade, or community relations across our islands.

With a positive approach to Brexit, Northern Ireland has the chance to played an enhanced role within a UK with greater independence of action, with the potential to grow our economy and build an inclusive society.

⁵⁶ Leave EU / Global Britain, Secure, Peaceful and Prosperous: Why Northern Ireland would be better leaving the EU, May 2016.

⁵⁷ Northern Ireland Executive, Programme for Government 2011-2015.

⁵⁸ Ibid.

⁵⁹ Northern Ireland Act 1998, c. 47. Northern Ireland St Andrews Agreement Act 2006, c. 53.

⁶⁰ OECD, OECD Global Competitiveness Index, 2014-2015.

The Irish border

Much discussion, locally, has focussed on the prospective new land border between Northern Ireland and the European Union. More properly, the issue at hand is the entire international frontier between the United Kingdom and the Republic of Ireland. The Irish land border is part of that frontier, which also includes airports and seaports. The UK is a major point of entry for goods destined for Ireland and the UK is, by a considerable distance, the biggest point of origin for Irish imports.⁶¹ It is also claimed that three quarters of Irish exports to the EU and Britain pass along the M4 motorway in Wales.⁶²

Policy-makers in Northern Ireland will have a close interest in how these questions are resolved, but they are matters ultimately for the governments in London and Dublin.

Concerns about Brexit and the Irish border centre broadly on two questions:

- 1) Whether the Common Travel Area between the UK and the Republic of Ireland can be maintained after the UK leaves the EU.
- 2) Whether physical border controls, including customs checks and immigration checks, will be required after the UK leaves the EU.

The Common Travel Area (CTA) allows passport free travel across the UK and Ireland, as well as the Channel Islands and the Isle of Man, for British and Irish citizens. There are some restrictions for non-CTA nationals, who must have immigration permission for the country they wish to enter, but journeys within the Area are subject currently to minimal immigration checks.⁶³ The Irish government reserves the right to check documents for people who come into its country, although the CTA also entails cooperation on immigration by both states, as evidenced by the protocol signed in 2011.

The Common Travel Area is not provided for specifically in UK or Irish law, but it is referenced in legislation and recognised in a number of bilateral international agreements between the two countries.⁶⁴ It is underwritten by the Ireland Act 1949, where the UK unilaterally provides 'non-foreign' status to all Irish citizens, who are essentially accepted as British in all but nationality.

Both the British and Irish governments have affirmed their commitment to keep the CTA. The Republic's prime minister, Enda Kenny, said that his government would do its utmost "to maintain the Common Travel Area and minimise possible disruptions to the flow of people, goods and services between these islands". Theresa May noted that, "there is a strong will on both sides to preserve it (the CTA)".⁶⁵

⁶¹ Observatory of Economic Complexity (OEC) website

⁶² BBC News, 'Welsh UKIP politician wants Ireland to pay for road', 29 November 2016.

⁶³ House of Commons Library, Briefing Paper 7661, 15 July 2016.

⁶⁴ House of Lords Library Note, Leaving the European Union: The UK and Ireland, 17 November 2016.

⁶⁵ Padraic Halpin, 'Ireland will do utmost to keep British common travel area: PM', *Reuters*, 24 June 2016.

There is no obvious legal impediment to maintaining the CTA, when the UK leaves the European Union.⁶⁶ EU law already recognises the two countries' rights to operate the arrangement outside the Schengen Agreement, which governs freedom of movement across much of the rest of the European Union and beyond.⁶⁷ There have been suggestions that the EU may have authority to interfere, but, there is a perception that the CTA affects sensitive issues of identity and nationality central to the peace accord in Northern Ireland, so member states would surely be loathe to do so.⁶⁸

Neither government wants to end the CTA and, likewise, there is no appetite for extensive physical controls at the border. The "border of the past" that many people envisage featured security arrangements in response to the threat of terrorism during 'The Troubles'. The Irish Taoiseach, Enda Kenny, said that his government "does not want to see a European border internally on the island of Ireland" and, even less ambiguously, "there will not be a hard border from Dundalk to Derry".⁶⁹ The British prime minister, Theresa May, asserted that "there will be no return to the borders of the past", while Brexit minister, David Davis, confirmed government ministers "do not want a hard border".⁷⁰

Concerns around border controls relate both to the movement of people and the movement of goods. It has been suggested that controls will be needed to prevent immigrants, particularly European Union immigrants, from entering the UK via the Republic of Ireland. This concern is overstated. It is highly unlikely that EU citizens will require visas to enter the United Kingdom and their rights to work or claim benefits will be assessed later, when they apply for employment or attempt to gain a National Insurance number.⁷¹

All migrants, including those from the EU, already pass through UK or Republic of Ireland border checks before entering the UK. Neither country is part of the Schengen borderless travel area and Ireland has opted out of the European Union's common immigration policy. This means third country nationals without a right of residence in the Republic will not be able to enter the UK either.⁷² *The reality is that while the Republic of Ireland border and entry points such as Dublin act as the UK's border – the UK's border, including entry points such as Heathrow, Gatwick, Manchester and Edinburgh, also act as the Republic's border. No party has an interest in undermining this arrangement.*

⁶⁶ Professor Bernard Ryan, ILPA EU Referendum Position Papers 8: The implications of UK withdrawal for immigration policy and nationality law: Irish aspects, 18 May 2016.

⁶⁷ RFEU, Protocol 20.

⁶⁸ Northern Ireland Affairs Committee, Northern Ireland and the EU referendum, HC 48, 26 May 2016.

⁶⁹ BBC News, 'Brexit: 'No Hard Irish Border', says Taoiseach Enda Kenny', 22 July 2016.

⁷⁰ Department for Exiting the European Union, 'David Davis Op-Ed: I Will Ensure that Northern Ireland's Voice is Heard in Negotiations', 1 September 2016.

⁷¹ John Campbell, 'Brexit: Employers 'will bear migration costs' say experts', *BBC News*, 3 November 2016.

⁷² Leave EU / Global Britain, *Secure Peaceful and Prosperous: Why Northern Ireland would be better leaving the EU*, May 2016.

It has been reported that the government intends to move aspects of British immigration control to Ireland.⁷³ However, much of the architecture of a post-Brexit arrangement on immigration is already part of the Common Travel Area. The Secretary of State for Northern Ireland, James Brokenshire, has spoken about strengthening "the external border of the CTA", after the UK leaves the EU. As recently as 2011, Ireland and the UK signed a protocol "to further secure the common travel area".⁷⁴

The two governments already collaborate extensively on immigration and Brexit requires only a deepening of this existing collaboration. Some of this necessary work is already underway. This programme includes: investment in border procedures, increased data sharing to inform immigration and border security decisions, passenger data systems enabling the collection and processing of advance passenger information and harmonised visa processes.⁷⁵

It has also been suggested that time-consuming customs controls will be implemented at the Irish border. In part, this arises from an out-dated view of how goods are moved in the modern world and the electronic trail that creates. Technology and automated border clearance systems have made the need for disruptive border checks redundant, even where so-called 'hard borders' exist.⁷⁶

It is likely that the UK will cut tariffs when it leaves the European Union, bearing in mind the government's emphasis on global trade. That would leave the pressure for stringent customs controls coming from the EU, and it, in turn, would bear the consequent costs. The issues around updating technology and implementing suitable controls are likely to fall, predominantly, on the Republic of Ireland. In the FAQs section of its 'Initial Contingency Framework' for Brexit, the Irish government says, "It should be noted that the customs regime between the EU and some other third countries does not... involve fixed border posts but a less disruptive mixture of electronic filing and random physical checks".

As one commentator notes, the imposition of a physical land border is both "impracticable as well as unpalatable".⁷⁷ **The outstanding practicalities are likely to include, maintaining the CTA and deepening cooperation over monitoring its perimeter (a responsibility that the two governments share) and ensuring that adequate systems are in place to enable quick and easy customs checks, should the need arise. The latter burden will fall most heavily on the Irish government in conjunction with the European Union.**

⁷³ Henry McDonald, 'Britain to Push Post-Brexit UK Immigration Controls Back to Irish Border', *Guardian*, 9 October 2016.

⁷⁴ Department of Justice and Equality, 'Ireland UK accord to further secure the Common Travel Area', 20 December 2011.

⁷⁵ House of Lords Library Note, *Leaving the EU: The UK and Ireland*, 2016.

⁷⁶ Richard North, 'Bordering on the ridiculous', *EUReferendum Blog*, 5 April 2016.

⁷⁷ Daniel Hannan, 'My one worry with Brexit, if we mess things up, we could harm relationships with Ireland', *Conservative Home*, 29 September 2016.

Cross border relationships

Relationships between the UK and the Republic of Ireland are robust and are likely to remain so, after the UK leaves the EU. The Good Friday Agreement, which re-established devolved government in Northern Ireland, is lodged as an international treaty between the two nation states. The European Union is not a signatory and the High Court recently rejected the argument that Brexit will undermine the accord.⁷⁸

The agreement confirms rights of people in Northern Ireland to take both British and Irish citizenship that were already enshrined in UK and Ireland laws. The principle that the Republic of Ireland "is not a foreign country" was set out in the Ireland Act 1949, with the result that its citizens are treated exactly the same as British citizens within the UK. These rights underpin the CTA and include the right to vote in Westminster elections and the right to reside in the United Kingdom. There is no serious suggestion that this special status will be reviewed after Brexit is implemented.

Some commentators have speculated that peace and security in Northern Ireland could be undermined by leaving the EU. However, the evidence for such a contention is flimsy. Both governments are adamant that keeping Northern Ireland peaceful and secure is their key priority, in terms of bilateral relations. Mrs May states:

*"The peace process has ultimately been successful because of the commitment of successive UK and Irish governments and the willingness of politicians and the communities they represent to put aside past differences sufficiently to allow Northern Ireland to be governed peacefully. It is clear that the relationships that both the Northern Ireland Executive and the UK Government have with the Irish Government continue to be very strong, and we expect that would continue to be the case regardless of the outcome of the referendum."*⁷⁹

Ireland's Ambassador to the United Kingdom, Dan Mulhall, has spoken about retaining, "all of the advantages deriving from the current positive state of Irish-British and North-South relations".⁸⁰

The close friendship between the UK and the Republic of Ireland, on an East-West axis between London and Dublin, and on a North-South axis between Belfast and Dublin, has been a positive feature of recent years. It is built upon strong foundations of interdependence, unbreakable cultural links and the common challenges presented by our shared history. These relationships are likely only to deepen in the foreseeable future.⁸¹

⁷⁸ Vincent Boland, 'Judge rules that Article 50 does not require parliamentary approval', *Financial Times*, 28 October 2016.

⁷⁹ House of Lords' Library Note, Leaving the European Union: The UK and Ireland, 17 November 2016.

⁸⁰ Ambassador Dan Mulhall, 'Implications for Ireland of a British exit from the EU', Embassy of Ireland, *The Ambassador's Blog*, 3 July 2015.

⁸¹ Leave EU / Global Britain, Secure peaceful and prosperous: Why Northern Ireland would be better leaving the EU, May 2016.

Peacebuilding and community relations

The Belfast Agreement / Good Friday Agreement sets out the basis for power-sharing in Northern Ireland and formalises various entitlements relating to culture and citizenship. These will remain intact after the UK leaves the European Union (see above). Although the idea that the Agreement is incompatible with Brexit was dismissed swiftly by the courts, more substantive questions have been raised around EU funding for peace initiatives.⁸²

The PEACE programmes I-IV released monies to "reinforce progress toward a peaceful and stable society". PEACE IV has earmarked €229 million for applicants and applications are proceeding.

INTERREG offers structural funds to "support strategic cooperation" across the Irish border and with western Scotland, and is a general fund in the EU rather than specific to this region. While the fund has been often promoted in the context of 'peace' this has been by appropriation rather than design. The latest INTERREG programme includes an EU contribution of €240 million between 2014-20.⁸³

The Treasury has now guaranteed all structural and investment funding signed before the Autumn Statement of 2016. This pledge will cover most projects within the current streams of funding.⁸⁴ **Looking ahead, particularly beyond 2020, decision-makers in Northern Ireland will want to consider their spending priorities and the most effective ways in which to use public funds.** The likelihood of successive streams of PEACE funding continuing indefinitely, had we remained in the EU, was not high. By 2020 we will have had over 20 years of peace processing.

Occasionally, the notion is floated that human rights underpinning the 'peace process' may be undermined by Brexit. This appears to rest on a misplaced belief that membership of the European Convention of Human Rights depends upon membership of the EU. Forty seven European countries subscribe to the ECHR and the UK will remain a signatory when it leaves the European Union. Speaking before the referendum, Northern Ireland's Attorney General, John Larkin, suggested that "fundamental rights and freedoms would actually be enhanced by... a withdrawal".⁸⁵

Any success in building more positive community relations in Northern Ireland is grounded on constructive attitudes between people here, the efforts of the two governments and an improved relationship between the UK and the Republic of Ireland, rather than common membership of the EU. All the conditions are in place to maintain that project after Brexit, and to deepen the relationships that underpin it, as well as cultural and economic links, shared rights and citizenship, so long as the necessary political will remains.

⁸² Dagma Schiek, 'What Does the 23 June Mean for Northern Ireland Specifically? Legal Perspectives Number 2: Peace', *Queen's University Belfast Public Policy Blog*, 7 June 2016.

⁸³ Special EU programmes website.

⁸⁴ BBC News, 'Brexit: EU-funded projects in Northern Ireland will be guaranteed, Treasury says', 13 August 2016.

⁸⁵ Sam McBride, 'Attorney General: Brexit could improve rights', *News Letter*, 26 February 2016.

Dismantling European Law

Some of the most potent arguments for leaving the European Union centred on the sheer volume of EU laws and regulations, the unaccountable nature of their enforcement and the immense difficulty of reviewing or repealing the 'Acquis communautaire', that comprises the entire body of Brussels' law. The UK is now set to regain control of its legal system, ending the overarching jurisdiction of the European Court of Justice, and making EU law capable of repeal and amendment.

In an attempt to simplify the Brexit process, the prime minister announced her government's intention to introduce a Great Repeal Bill, enshrining existing EU law in UK law and annulling the European Communities Act. This process entails practical difficulties, because of the impenetrable length of the Acquis, as well as the fact that many laws and regulations apply to internal, cross-border matters within the Union.⁸⁶

The OFMDFM's 'Preliminary Analysis' raises the possibility of "significant legal implications" and assesses that a "significant workload" will be required to disentangle the NI statute book. Northern Ireland policy makers will want to weigh that assessment against the ongoing process being conducted by the UK government. The Northern Ireland Assembly has not been a prolific legislator over the course of its existence and a great deal of legislation will be dealt with at national level.

Likewise, the Executive will wish to review the effects of existing EU laws and regulations across its devolved competencies. The House of Commons library estimated that 50% of legislation with 'significant economic impact' derives from the EU and that is in addition to 'soft law', including communications, declarations, recommendations, resolutions, statements, guidelines and special reports from EU institutions, as well as rulings from the ECJ.⁸⁷

Some of the more burdensome restrictions apply to heavily regulated areas like trade, agriculture and fisheries. Local companies have identified excessive regulation as among the top barriers that they confront.⁸⁸ **While dismantling EU law may be an administrative challenge, it is also a significant opportunity for policy-makers to boost the economy and agriculture in Northern Ireland.**

⁸⁶ Adam Payne, 'The government's plan for a smooth Brexit is turning into a logistical nightmare', *Business Insider UK*, 22 November 2016.

⁸⁷ House of Commons Library, Research Paper 10/62, 13 October 2010.

⁸⁸ FSB (Northern Ireland), Business Survey 2015.

AGRICULTURE AND FISHING

Toward sustainable farms

In Northern Ireland, farms have become financially dependent on the Direct Payment (formally the Single Farm Payment); a subsidy distributed under the EU's Common Agricultural Policy (CAP). The government has pledged to replace directly any lost Direct Payment (DP) funds until 2020.⁸⁹ It is highly likely that a replacement subsidy scheme will be introduced after the UK leaves the European Union.

Although many farmers still depend upon the DP for a significant proportion of their income, the level of funding has fallen consistently. Between 2010 and 2014 the value of DP to Northern Ireland's farmers fell by almost 10%, from £270 million to £248 million.⁹⁰

CAP subsidies are divided into pillar 1 (DP) and pillar 2, which distributes funds for 'rural development'. Both pillar 1 and pillar 2 funds are projected to fall. Before the referendum, the Department of Agriculture and Rural Development (DARD) estimated that funding for pillar 1 would be effectively 13% lower for pillar 1 and 22% lower for pillar 2 by 2021, than in 2013. The department had already begun to rethink the schemes it delivers and acknowledged that there is significant uncertainty about the future CAP budget and the way it was distributed.⁹¹

The costs and bureaucracy involved in CAP already create problems for farmers, and the policy's flaws are likely only to get worse in the future, as it enters a period of major reform.

The Executive now has an opportunity, in conjunction with HM Treasury, to design a scheme of subsidy that is tailored to Northern Ireland's particular needs, wastes less money and benefits farmers more directly.

In addition, the DP has traditionally distorted the market, allowing food distributors to pay substantially under the cost of production for products. **As policy-makers in Northern Ireland look toward the future, they will wish to consider how to make farms sustainable in the longer-term and improve efficiency in the industry.**

Markets in the Republic of Ireland and the rest of the EU

Agriculture falls outside the remit of the European Economic Area, and a free trade agreement with the EU would not necessarily result in all UK agricultural products escaping tariffs. Nevertheless, outside the EEA, both Switzerland and Canada have negotiated deals that provide beneficial access to the market for their key products.

⁸⁹ Ibid.

⁹⁰ DARD Annual Report and Accounts 31 March 2011, 31 March 2015.

⁹¹ DARD, DARD Resource Accounts for the Year Ended 31 March 2015.

The Ulster Farmers' Union (UFU) has highlighted concerns about non-tariff barriers that could affect Northern Irish exports to the EU. In particular, it highlighted the prospect of different rules around animal health and costs associated with complying with a different regime.⁹² However, the initial introduction of EU laws and regulations into British law, via the Great Repeal Bill, should ensure that the transition is smoother for farmers.⁹³

There are significant links between agriculture in Northern Ireland and agriculture in the Republic. Livestock and produce moves in volume between both jurisdictions, as the food production industry often spans the border. Likewise Rural Development monies have funded some cross border projects, dealing with animal health, animal welfare and cooperation.

On the other hand, **there are significant opportunities for Northern Ireland produce to displace EU imports to the rest of the UK, particularly to the south east of England.** The UK imports almost three times as many agricultural products to the EU than it exports in the other direction.⁹⁴

Threats and opportunities

Added to their concerns about maintaining subsidies and accessing the EU market, farmers have expressed worries that low-cost or low-quality imports could undercut UK products, after withdrawal.⁹⁵ **In the longer term, the advantages to consumers of lower cost imports will have to be weighed against their impact on producers.** In the shorter term, the UK intends to maintain EU standards, immediately after Brexit.

Some farms are reliant upon seasonal and low-cost labour, with the result that any restrictions on immigration that result from leaving the EU could have an impact. These anxieties are echoed in the food production industry. It is noted previously in this paper that, while less access to migrant labour has the potential to cause difficulties for some sectors of the economy, policy-makers may look upon it as a chance to ease long-term unemployment.

Agriculture is a devolved policy area and leaving the EU will give local decision-makers more room for manoeuvre. The Executive is likely to have responsibility for distributing subsidies to farmers, possibly using a scheme of its own design, whereas CAP was subject to strict EU rules.

In addition, there will be opportunities to lift the burden of regulation on farmers. One prominent example is in the area of scientific innovation and crop yields. The UFU has argued for, "a simplified regulatory burden based upon science and applying an 'advocacy first, regulation second' approach".⁹⁶

⁹² Ulster Farmers' Union, 'Ulster Farmers' Union sets out UK exit goals', 7 July 2016.

⁹³ Ibid.

⁹⁴ NFU, Implications of a UK exit from the EU for British Agriculture, April 2016.

⁹⁵ Ulster Farmers' Union, 'Ulster Farmers' Union sets out UK exit goals', 7 July 2016.

⁹⁶ Ulster Farmers' Union, 'Ulster Farmers' Union sets out UK exit goals', 7 July 2016.

Leaving the EU gives policy-makers a rare opportunity to look comprehensively at the shape of farming and agrifood in Northern Ireland. In common with other areas of the economy, many problems brought to prominence by Brexit pre-date the referendum. In a presentation to the Northern Ireland Assembly, Dr Lee Magowan and Dr Viviane Graney from QUB, note "challenges already lay ahead for Northern Ireland farming as CAP continued to undergo reform".⁹⁷

The Northern Ireland Executive will wish to help create an open, sustainable industry, that focuses on its strengths and on products that have added value, rather than relying on subsidy. It will want to ensure farming here is competitive and efficient, while striving for fairness and balance along the food supply chain.

Fishing – great expectations

In the fishing industry, the referendum result was greeted, for the most part, with unalloyed joy. Representatives say that the EU has been responsible for over-regulation, unaccountable decision-making and unfair quotas for UK boats. Expectations that Brexit can save the industry will be high among commercial fishermen.

The main instrument of maritime law, the United Nations Convention on the Law of the Sea (UNCLOS) grants countries an Exclusive Economic Zone (EEZ) that they are entitled to control and exploit.⁹⁸ Under its Common Fisheries Policy (CFP), the EU imposes a single EEZ on all member states, and uses a system of quotas, relating to amounts and species of fish, to establish their fisheries' Total Allowable Catch (TAC) each year.⁹⁹

Because the UK is an island nation and its EEZ is particularly large, fishermen feel that its TAC did not reflect the extent of the coastal waters. It is estimated that British and Irish waters account for 60% of the EU's total waters.¹⁰⁰

Leaving the EU should restore the UK's control over the whole of its EEZ which, in theory, gives it the right to set its own restrictions, allowing the Northern Ireland fleet to fish for a greater volume of fish across a wider range of species. The government will still be bound by certain international obligations designed to protect fish stocks, but the line of accountability between politicians and the fishing industry should be clearer.

If the UK establishes exclusive access over its fish stocks, **decision makers will wish to address issues around the Irish Sea cod fishery, where the species' recovery has not been reflected in a raised TAC. Impractical new regulations around discards, requiring boats to land rather than discard certain species of fish, have caused additional costs and are considered arbitrary as they involve landing unsaleable fish.**¹⁰¹

⁹⁷ Dr Lee Magowan & Dr Viviane Gravey (QUB), Northern Ireland Assembly KESS, Exiting the EU: Policy considerations for Northern Ireland, 2016.

⁹⁸ United Nations, United Nations Convention on the Law of the Sea.

⁹⁹ European Commission website, The Common Fisheries Policy.

¹⁰⁰ Chris Muspratt, 'The EU's betrayal of Britain's fishing industry', *The Commentator*, 2 October 2015.

¹⁰¹ Marine Management Organisation, Fisheries Management: Landing Obligation, 19 October 2015.

In the main, commercial fishing representatives do not consider that EU funds have resulted in appreciable benefits for their industry. The government has agreed to underwrite existing funding from the European Fisheries Fund and other structural funds, signed off before the UK leaves the EU. However, **coastal communities will want to know how the Executive intends to help them sustain their economy and way of life, into the future.**

Policy-makers will wish to investigate how the burden of regulation that currently hampers the commercial fishing industry can be eased. Northern Ireland fishermen are likely to be constrained by some regulations if they wish to sell their products in the EU market and the shape of any trade deal will determine the overall room for manoeuvre. The Executive may have powers to change some laws relating to the environment and fish stocks, that industry representatives insist are outdated and ineffective.¹⁰²

Fishing in Northern Ireland has been decimated by the European Union and its CFP. People involved in the industry feel angry, ignored and let down. Leaving the EU opens up more possibilities for policy-makers to introduce a new management system that learns from the successes of Iceland, the Faroe Islands and Norway, when responsibility for fishing is returned from Brussels to Westminster in the first instance and specifically to Stormont.

¹⁰² Mark Allen and Dr Dan Hull, Northern Ireland Assembly, Research and Information Service Briefing Paper 71/16, 8 September 2016.

IMMIGRATION

Open, but in control

Powers to set immigration policy are reserved to Westminster. Northern Ireland will have its say in the national debate, but it is highly unlikely that the government will consider, for instance, handing responsibility for setting regional immigration targets to devolved assemblies, as suggested in one post-Brexit position paper.¹⁰³

Although the referendum debate in Northern Ireland touched upon immigration, the issue was less prominent than in the rest of the UK. Migrants form a small but growing proportion of the population here and their impact on society is only beginning to be measured.¹⁰⁴ The statistics lag behind changes in demography, but we know that the largest numbers of new arrivals came from Poland, Romania and Bulgaria, with significant numbers from Slovakia, Lithuania and Hungary.

Any change in immigration policy for EU citizens is likely to affect significantly the flow of migrants into Northern Ireland. The government has indicated that regaining control of its borders will be one its main priorities in Brexit negotiations. **If fewer people from eastern and central Europe come to Northern Ireland to work, it will create policy challenges for the Executive, but there will also be benefits and opportunities.**

The potential impact on low-skilled labour has been discussed previously in this paper. Some sectors in Northern Ireland, like food production, social care, hospitality and so on, have become increasingly reliant on EU migrants to fill lower waged jobs. Employers have already been obliged to raise wages for this type of employment, due to the government's 'living wage' policy and further increases are planned.¹⁰⁵

A recent paper from the Nevin Economic Research Institute observed that inward migration has actually lifted the performance of the Northern Ireland workforce, improving its performance on skills, productivity and economic inactivity. While these statistics highlight possible challenges ahead, they also underline the prospective opportunities to address long-standing economic deficiencies and their social costs, that might arise if the government decides to limit 'free movement' as part of its Brexit plan.¹⁰⁶

¹⁰³ NIFDA, Challenges & Opportunities for Northern Ireland Food & Drink, November 2016.

¹⁰⁴ NISRA Census 2011.

¹⁰⁵ The National Living Wage website.

¹⁰⁶ NERI, Quarterly Economic Observer, Winter 2016,

In addition, while immigration from the EU is often cast as 'free movement of labour', Brussels' regulations do not distinguish between workers and benefits tourists. Free movement of citizens requires parity with nationals as regards benefits, the health service, access to free education and other publicly funded entitlements. Anecdotal evidence suggests that services are under pressure, due to arrivals from parts of the EU. David Cameron's attempts to untangle free movement from benefit obligations fell apart during the government's negotiations before the referendum.¹⁰⁷

Brexit restores genuine control over the UK's borders. Immigration can now be tailored to our skill shortages, social considerations and economic needs.

Northern Ireland and the rest of the UK will always be open to new arrivals. Our community is likely to become more diverse, and that is a strength rather than a weakness. However, outside the EU, policy makers must think meaningfully about how that happens.

¹⁰⁷ House of Commons Library, Briefing Paper 7214, 12 February 2016.

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