

The impact of UK withdrawal from the European Union on the Republic of Ireland

Yvonne Galligan, Queen's University Belfast

Early on the morning of Friday 24 June 2016, when the result of the referendum on UK membership of the European Union was known, Taoiseach (prime minister) Enda Kenny and Prime Minister David Cameron identified issues of mutual interest requiring immediate bilateral attention – the Common Travel Area and the border with Northern Ireland.¹ At the same time, the Irish Minister for Foreign Affairs, Charles Flanagan, signalled that the vote held implications for the strong economic and trade links between the UK and Ireland. Later that day, Kenny reminded a domestic audience of Ireland's continuing membership of the EU. The impact for Ireland of UK withdrawal from the European Union were summarised in the Dail on Monday 27 June by Kenny as follows: 'first, the economy, and the relative importance of each other's markets for trade; second, Northern Ireland, the peace process and British-Irish relations; third, the common travel area and our shared land border; and fourth, the role of the United Kingdom within the European Union and its strategic value to Ireland in that context.'² At the informal European Council meeting on Wednesday June 29 called to discuss the implications of the Brexit vote, the Irish delegation sought to place the special relationship between Ireland and the UK onto the European negotiating agenda. This series of context-framing responses demonstrates, in essence, the dilemma facing the Irish government– how to preserve the close and positive Anglo-Irish relationship in all of its complexity, while also defending Ireland's interests as a member of the European Union. This report will consider the implications the Brexit vote holds for the Irish economy and trade, the peace process and British-Irish relations, the common travel area and the border, and the position of Ireland in an EU without the UK as a member.

Economy and trade

Immediately on the referendum result being known, the Minister for Public Expenditure, Paschal Donoghue, announced that there would be no change in budgetary plans up to 2017. This was

government reassurance that the promise of personal tax reductions in the upcoming budget was still on track after a long period of public sector austerity. However, longer-term fiscal forecasts were less optimistic, and the Minister for Finance Michael Noonan cautioned that a slow-down in economic growth would put public finances under strain once more.

Noonan's observation points to the significance of the British economy for Irish economic well-being. Pre-referendum reports estimated that a 3% fall in the UK GDP would reduce Irish GDP by between 0.3% and 1%, though these predictions were accompanied by many caveats. Nonetheless, all pointed to the connection between both economies. Mindful of the threat to Irish economic (and political) interests, the government drafted a contingency framework for managing the consequences for Ireland of the UK exit from the EU. In addition to the immediate priorities identified in the Taoiseach's statement to the Dáil (lower house of parliament), the framework outlined the government's key issues for attention during the pre-negotiation and negotiation phases of UK withdrawal. While described at a general level, issues such as the continuation of cross-border health services, the agri-food sector, foreign direct investment, energy security in an all-island context, among others, offer an insight into the complexities of disentangling four decades of policy alignment, and many more decades of British-Irish relations.

The announcement of a vote to leave the EU prompted an immediate 15% depreciation in the value of sterling against the Euro. Irish exporters were among the first affected. For the Irish Business and Employers' Confederation (IBEC), this represented a loss of competitiveness in trade and a threat to Irish jobs. IBEC calculated that if sterling weakened to 90cent against the Euro, it would result in a EUR700million/STG590million loss to Irish food exports alone, and threaten 7,500 jobs in the agri-food industry alone. The Irish Central Bank too, warned that Brexit would curtail investment, hamper export and employment growth, and cut economic growth forecasts for 2017 and 2018.³ More generally, Enterprise Ireland (the government organisation responsible for growing the markets for Irish business) put in place advice to Irish companies on managing exchange rate volatility and

diversification of their markets. These emerging economic and trade issues present the Irish government with significant challenges on the domestic front as it responds to demands for a 'Brexit-proofed' budget, pressure to raise the EUR9.15 minimum hourly wage, and ensure Irish business competitiveness. They also challenge the government to respond in an EU context, as demand grows from Irish business interests for derogations from EU restrictions on state aid, so as to enable the government match UK grant aid to manufacturers in a post-Brexit environment.

The peace process and British-Irish relations

The Irish government has identified the peace process, the continuity of the peace institutions and the 1998 Good Friday (Belfast) Agreement as an issue of some consequence. The 1998 Agreement, ratified by majorities in the two jurisdictions on the island, gave the Republic of Ireland an institutional stake in the affairs of Northern Ireland. This in turn rested on an assumption of the two sovereign states' continued EU membership. One could expect that the Irish government will respond robustly to having its position as co-guarantor of the (still incomplete) peace process reopened, and possibly undermined, by Northern Ireland leaving the EU. On the same basis, the cross-border bodies such as the North-South Ministerial Council and the British-Irish Council, important institutional contexts for the discussion of issues of mutual interest, may also need to be reaffirmed.⁴ These are matters with the potential to re-open the complex and sensitive 1998 settlement and its subsequent iterations.

Notwithstanding these yet-unresolved, indeed unclarified, constitutional consequences of Brexit, the North-South Ministerial Council met on 4 July to discuss the referendum decision and its implications for North-South relations. Following an extensive exchange, the Council 'agreed to work together to ensure that Northern Ireland's interests are protected and advanced and the benefits of North-South co-operation are fully recognised in any new arrangements which emerge as regards the United Kingdom's future relationship with the European Union.'⁵ In this context, the Irish government agreed to increase briefings for Northern Ireland officials, while their respective

Brussels delegations would intensify their already close working relationship. This meeting marks a shared commitment of the two governments on the island of Ireland to work in tandem on matters of mutual interest in a Brexit context.

The Northern Ireland peace process has had extensive support from the European Union through funding for grass-roots peace and reconciliation projects along the border. This region has benefited from EUR1.3billion courtesy of European tax-payers since 1995, and it is due to receive an additional EUR229million from 2016 to 2020 under PEACE IV from the European Regional Development Fund. Matched local funding of EUR41million brings the total financial support to EUR270million. The content of PEACE IV funding programme was agreed by the Northern Ireland Executive and the Irish government as a means to 'address a number of key issues in order to support the overall peace process. These include more efforts to develop and deepen reconciliation between divided communities; increase tolerance and respect to reduce the levels of sectarianism and racism; promote increased community cohesion; and address the legacy of the past.'⁶ The programme had a particular focus on children and young people, shared education, and shared spaces. In the aftermath of the UK referendum vote, the European Parliament voted to continue PEACE IV funding in recognition of the important peace-building role of this programme.

The common travel area and the border

The Irish government has attached a special priority to retention of the common travel area (CTA) between Ireland and Britain. A non-legal agreement with various modifications since 1923, it facilitates the free movement of people, goods and services between the two jurisdictions. It has played an important role in the development of friendly relations between both societies, particularly since the mid-1990s paramilitary ceasefires in Northern Ireland. At present, there are almost 500,000 Irish-born people living in the UK, there are 300,000 UK-born persons living in Ireland, and many born in Northern Ireland choose to avail of dual nationality provisions. These people are accustomed to travelling unimpeded across the jurisdictions. The common travel area

has also assisted the trading relationship, with the UK buying over 40% of indigenous Irish exports (mainly agricultural produce and manufactured goods).

Britain remains Ireland's single biggest export destination, while Ireland is Britain's fifth largest trading partner. Transactions between both countries amount to EUR1.5billion/STG1.26billion per week. The significant advantage of the CTA is the absence of a customs border between the jurisdictions, facilitating the trade flows mentioned above. It is not surprising then, that the Irish government has launched a diplomatic campaign to have the special relationship with Britain, including the CTA, recognised in the Brexit negotiations. Early indications are reasonably positive – French President François Holland went on record as agreeing that the CTA, along with the peace process, should have a 'special status' in EU-UK Brexit negotiations.⁷

When Brexit comes into effect, the UK will have a land border with the European Union in the shape of the 300-mile border between Northern Ireland and the Republic of Ireland. A porous entity, the border was a symbolic political totem during the three decades of conflict in Northern Ireland. For those living in border regions, daily life was disrupted by continual security checks of vehicles, goods and persons, long delays at border checkpoints on both sides, and severe disruption of travel to school, work and social activities.⁸ Paramilitary ceasefires in the mid-1990s ushered in the conditions for a more relaxed border security regime, and the 1998 Agreement hastened the dismantling of a visible security presence from border checkpoints. Since then, cross-border trade has grown significantly, the movement of people is unimpeded, and the signs of leaving one jurisdiction and entering another are barely visible. The value of cross-border trade rose from EUR2.5billion in 1998 to EUR3billion in 2014.⁹ With the Brexit vote, business leaders, haulage firm owners, and traders on both sides of the border warned of the increased commercial costs associated with the return of a hard border and the imposition of customs controls.

Tourism too, is likely to be affected by a hard border: between 2008 and 2014, the numbers of visitors from Northern Ireland into the Republic of Ireland trebled to 1.7 million persons. The island

is officially marketed as a single holiday and business destination by Tourism Ireland, reaching a global audience of 600 million people each year. In 2014, tourism generated EUR4billion for the island, with the majority of visitors coming from Great Britain (48%), the United States (13%), France (5%) and Germany (7%). Tourism contributes 5% to Northern Ireland's GDP and 2% of Ireland's GDP, thus is an important generator of economic wealth. The reintroduction of a border in the post-Brexit era will impact the flow of visitors from Northern Ireland, and visitors from other destinations, including GB. It will also threaten the continued existence of Tourism Ireland and the all-island marketing strategy.

Even though the new Secretary of State for Northern Ireland, James Brokenshire MP, has echoed the Irish government's wish to retain the unimpeded cross-border flow of people and trade, much depends on the UK government position on the EU customs union. If the May government decides to leave the customs union in order to facilitate bilateral trade agreements, the cost of cross-border and UK-Ireland trade will escalate with the imposition of tariffs and other customs duties on traded goods. However, equally as important as the trade consequences, reintroduction of the border will have a significant psychological and symbolic effect. According to Taoiseach Enda Kenny, a new border would reinforce 'an old narrative: one of division, isolation and difference'. While the features of a border are yet to be determined, and are very much dependent on the wider UK Brexit strategy, the Irish government will continue to actively campaign for a soft border, with close co-operation on immigration continuing between the two governments.

The position of Ireland in the EU without the UK as a member state

This aspect is of fundamental importance to Ireland as a continuing member of the EU. In framing the challenges facing Ireland consequent to the referendum result, Taoiseach Enda Kenny made this point, saying that 'The stakes have always been higher on this issue for Ireland than for any other EU member state'. The strategic risk of a Brexit vote was first identified in 2014, prompting the Irish government to focus on identifying responses to a 'leave' vote. As Cameron sought to negotiate a

referendum deal with the other member states in 2015, the Irish government actively informed the UK government and other EU governments on its concerns and interests. In anticipation of the need to protect Irish interests in the event of a Brexit vote, the government moved to create a range of structures to manage a UK exit from Europe. Among them was a new unit in the Department of the Taoiseach (Prime Minister), formed in April 2015 to identify bilateral and national issues affected by the UK-EU negotiations and from a potential UK withdrawal from the European Union.¹⁰ In addition, government departments identified strategic and sectoral issues that could be anticipated in a Brexit vote scenario. Thus, when the referendum result was known, the Irish government was institutionally organised to respond to the political challenge.

From an Irish government point of view, EU membership played an important role in fostering closer relations and mutual understanding between the UK and Ireland. In a European Union context, Ireland was an equal with the UK and other member states. The politics of negotiation and compromise practiced in the EU context assisted the Irish and British delegations to develop a close working relationship. This trust and confidence at official and political level served both governments well as they moved to address the difficult question of peace in Northern Ireland. The alliance extended to a broadly shared view of the European Union, and especially on economic issues. Ireland could find itself in a more isolated position amongst the other member states when a close and powerful ally in the European context leaves the EU. The impending departure of the UK also weakens the European Union as an international arrangement, along with its economic and political capacity. Ultimately, from an Irish point of view, the departure of the UK from the EU means that future arrangements will be determined by an EU-UK agreement, over which Ireland might have little influence. Hence, bi-lateral negotiations between the UK and Ireland could be seriously constrained in the post-withdrawal environment.

Conclusions

This review of the Irish response to the Brexit referendum outcome highlights the extent to which the Irish economy, politics and society is intertwined with that of the UK. It is clear that the Irish government intends to do all it can to maintain that open, free-trade environment for trade, goods and services, facilitated by the absence of customs and tariffs between the two jurisdictions. The Irish government is also determined to retain the free movement of people, unimpeded by a border between Northern Ireland and the Republic. Furthermore, it has set its sights on continuing to uphold and secure the peace process, as co-guarantor with UK government. Some matters, though, call for the Irish government to persuade the 26 other EU member states to take Irish interests into consideration as Brexit negotiations proceed: the terms of the trade deal with Britain, the nature and extent of tariffs and customs controls, the status and rights of EU citizens residing or moving to the UK, conditions on the movement of people. For the Taoiseach, and possibly for his successor, the task is to remake Ireland's place in the EU as a fully committed member state without the support of the UK, while also maintaining Ireland's relationship with the UK so as to sustain the political and economic progress of the last 18 years.

¹ Kelly, Fiach 'Cameron and Kenny agree bilateral contacts', *The Irish Times*, June 25th 2016, p. 7.

² Oireachtas Debates, 'United Kingdom Referendum on European Union membership', <http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2016062700004?opendocument> (last accessed 4 Aug 2016).

³ Lisa O'Carroll, 'Irish exporters feel chill from Brexit fall in sterling', <https://www.theguardian.com/world/2016/aug/03/irish-economy-exporters-feel-chill-from-brexit-fall-in-sterling> (last accessed 3 August 2016)

⁴ Lee McGowan, 'Could Brexit disturb the peace in Northern Ireland?', <http://ukandeu.ac.uk/could-brexit-disturb-the-peace-in-northern-ireland/> (last accessed 3 Aug 2016)

⁵ North South Ministerial Council, Twenty Second Plenary Meeting, Dublin Castle, 4 July 2016 Joint Communiqué

⁶ http://www.seupb.eu/Libraries/PEACE_IV_Programme_Guidance/PIV_AdoptionByEC_30-11-2015.sflb.ashx (last accessed 2 Aug 2016).

⁷ Pat Leahy and Suzanne Lynch, 'Hollande agrees on special status for Border', *The Irish Times* 22 July 2016, p. 3.

⁸ 'The Troubles and Borderland life' at <http://www.irishborderlands.com/living/troubles/index.html> (last accessed 1 Aug 2016).

⁹ http://www.intertradeireland.com/researchandpublications/trade-statistics/total_cross_border_trade/ (last accessed 1 Aug 2016).

¹⁰ Fiach Kelly, 'Kenny's department to prepare for "Brexit"', *The Irish Times*, 13 Mar 2015; http://www.taoiseach.gov.ie/eng/News/Taoiseach's_Speeches/Statement_by_the_Taoiseach_on_UK_EU_Affairs_Dail_Eireann_21_April_2016.html (last accessed 5 August 2016)