

Brexit AND THE Border Corridor

on the Island of Ireland:
Risks, Opportunities and
Issues to Consider



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Foreword

We, the eleven Local Authorities who comprise the Ireland/Northern Ireland Border Corridor welcome the opportunity to present our joint research on the Risks, Opportunities and Issues to consider as a result of Brexit.

There is no doubt that the Ireland/Northern Ireland Border area will be most impacted by Brexit. Potentially the border will have an EU/Non EU international frontier right through its middle. This will present particular challenges which must be anticipated and dealt with.

As the Brexit negotiations continue the Border Corridor Local Authorities, elected members and officials, are committed to lobby and advocate for the needs of our region on an ongoing basis. These needs must continue to be reflected at the highest levels in government, in Ireland, Northern Ireland, London and Brussels.

We anticipate that joint work between the Border Corridor Local Authorities will consolidate over the next few years as clarity emerges on the actual shape of Brexit .



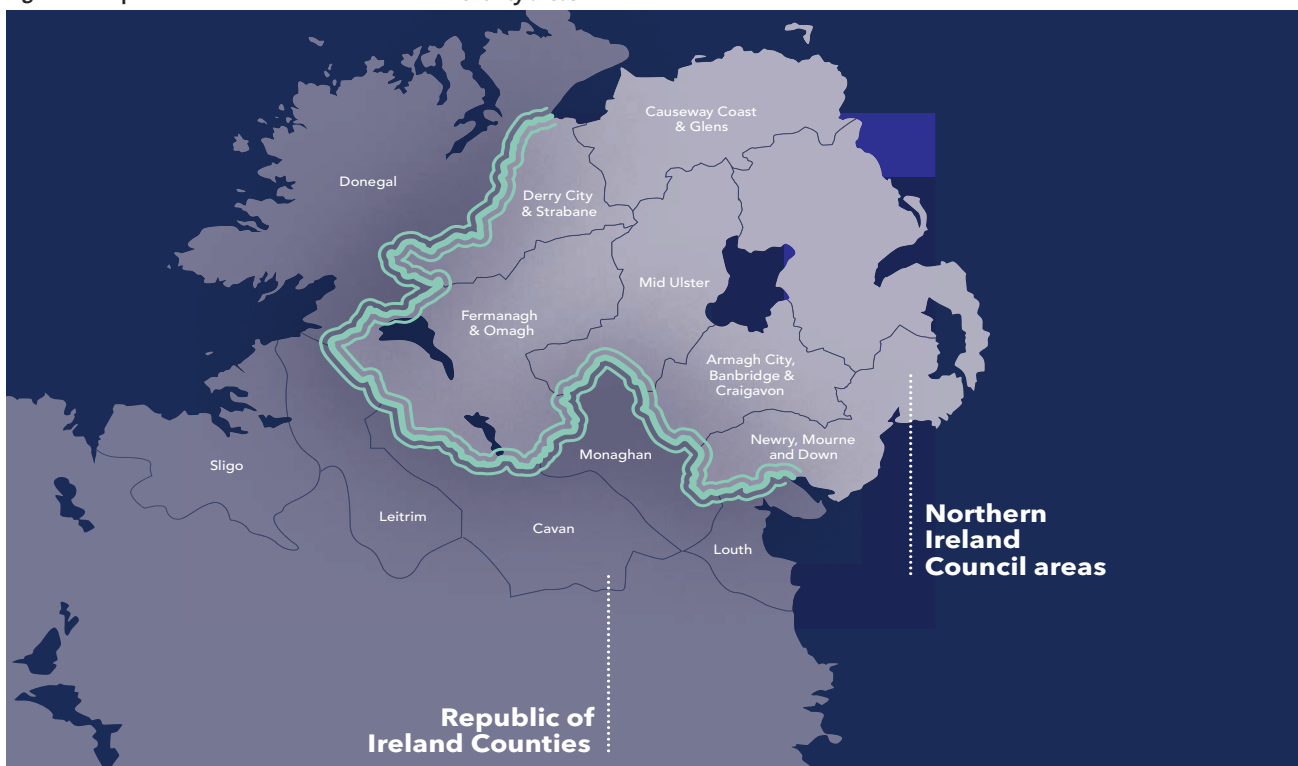
1. Background to the Report

Following the result of the June 2016 United Kingdom [UK] referendum to exit the EU there has been extensive discussions across the island of Ireland and beyond as to the impacts of this decision.

The Irish border and the region around it have been at the centre of this discussion. Following the referendum the Local Authorities from the Ireland/Northern Ireland Border Corridor (see Figure 1), led by Newry, Mourne and Down District Council, appointed the Ulster University Economic Policy Centre [UUEPC] to undertake research into the potential impacts of the Brexit decision on cross

border region. East Border Region facilitated the research and the coordination between the individual Local Authorities along the Derry Donegal North West City Region border corridor as shown in Figure 1. A second complementary report on the potential impact of Brexit was completed for the North West City Region in Feb 2017 which includes more detailed focus on the North West.^{1A}

Figure 1: Map of the Border Corridor and Local Authority areas



Source: Newry, Mourne and Down District Council

The UUEPC have completed the data collection and analysis, consultations (to identify likely areas of impact) and some provisional estimates of future employment in the Border Corridor for this report. The initial forecasts are based upon the existing economic profile of the region and the likely risks and opportunities for its economy given the future position of the region along an external border between the EU and an ex-member state (the UK). The research also recognises the current extent of

integration across the Corridor in many areas of social and economic life, such as trade, daily commuting for both public services and work, and cross-border shopping and tourism. The report concludes with some considerations as to what actions might be taken by the Local Authorities and other government and non-government stakeholders to ensure that any opportunities arising from Brexit might be grasped as well as minimising negative impacts which could arise from changes to trade and other policy areas.

2. Introduction: Brexit and the Story so far

2.1 Brexit

The shockwaves of the result of the UK's referendum on EU membership continue to be felt and debated.^{1B}

However, the timetable² has now been established. Article 50 was triggered on 29 March 2017 and 'divorce negotiations' between the UK government and the European Commission opened on 19 June 2017. Unless there are any dramatic U-turns, changes of heart or extensions to the timetable, Brexit will take place by the end of March 2019.

However, the narrowness of the UK vote to leave and the fact that a majority (56%) in Northern Ireland (NI) voted to remain ensure that the politics of Brexit will be troublesome for negotiators. The Remain vote had a majority in 11 of the 18 NI parliamentary constituencies. Of the 8 constituencies along the northern part of the Border Corridor only one (Upper Bann) voted to leave with many of the others returning large Remain votes (for example 2:1 in South Down).³

There is a recognition among all parties to the Brexit negotiations that one item on the agenda has a particular consequence for the island of Ireland: the future nature of the Irish border. The public recognition of this by the two chief UK and EU negotiators has followed months of lobbying and persuading by political parties in NI and the Irish government and others in local government. In NI, the special conditions due to the border, cross-border commuting, the need for a secure energy supply, the continuation of EU funding (estimated to be worth £3.5bn up to 2020) and the exposure of the agri-food sector were all laid out in the August 2016 letter from the then First and Deputy First Ministers to the UK Prime Minister.⁴ Although the Executive has since collapsed and, at this time, remains absent from the

discussions, a 'Brexit unit' is present in the Executive Office to present the NI case to Whitehall and also to work with the Irish government and officials through the North/South Ministerial Council (NSMC), on any cross-border matters.⁵

The Southern side of the Border Corridor has also featured strongly in the statements and publications issued by the Irish government since its initial Brexit contingency plan, issued immediately after the referendum.⁶ Regional Brexit events have also allowed local people to feed into the Irish government's approach. This approach to date has had three strands: Irish/EU, British/Irish and North/South. Although the negotiations do raise questions about how best the Republic of Ireland can position itself for a post-Brexit world, the issue of the border and the integration, in terms of people and trade, with the UK generally means that the government is likely to favour as close a UK/EU future relationship as possible.⁷

In the UK matters have become more complicated due to recent political events.⁸ The UK election resulted in a minority Conservative government and raised fresh questions about the shape of Brexit. Before the election the exit door desired by the UK government seemed to be clearer and involved leaving the Customs Union, taking control of immigration policy and rejecting the jurisdiction of the European Court of Justice.⁹ Analysis of GB voters suggested that they were 'hard on the outside but rather softer in the middle', meaning that any trade-off between free trade and freedom of movement of people would be difficult to sell, especially to the government's supporters.¹⁰

Since the election the UK government has begun to publish a series of proposals, including some on the Irish border, which seem to confirm the exit door but are unclear on the path afterwards. However, there remains uncertainty about what sort of Brexit will have a parliamentary majority, how long any transitional arrangements after June 2019 will be, and whether the current UK government will serve throughout the entire period of negotiations.¹¹ On the European side, while the unity of member states will be sorely tested by the negotiations, the Article 50

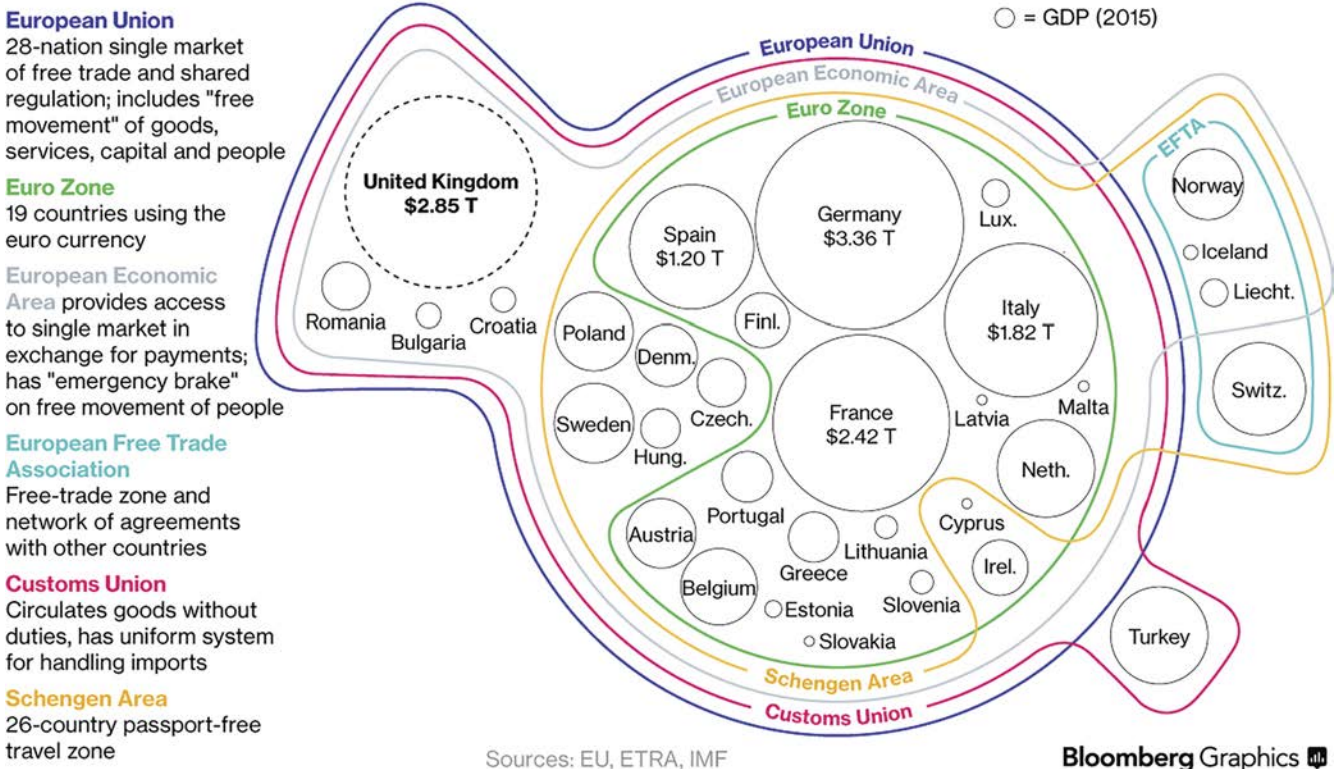
process with its fixed timeline allows EU negotiators to make the UK an offer, first on the shape of the divorce and then on the future relationship.¹²

Some of the post-Brexit options are detailed in Figure 2, which shows the various associations and memberships which currently bind European countries together. It may be that one of these or perhaps an entirely new 'association' will become part of the solution.

Figure 2: Various membership arrangements across European countries

Europe's Ties That Bind

The U.K.'s plan to leave the European Union has focused attention on long-standing pacts that govern trade, immigration and the common currency



Source: <https://www.bloomberg.com/news/articles/2017-06-22/u-k-should-consider-efta-deal-to-kick-start-post-brexit-trade>

2.2 The (economic) Story so far

One thing that the story so far should have taught observers is that it will be difficult to accurately predict the medium to long term impacts of Brexit.

Just after the referendum, the Nobel laureate, Paul Krugman, argued that the threats of a UK recession were overblown, even though he believed that ‘economists have very good reasons to believe that Brexit will do bad things in the long run’.¹³ Others have taken the Treasury and various forecasters to task for their modelling techniques and assumptions, although it is fair to say that this criticism has, in turn, been attacked.¹⁴ Above all, the economic debate before the referendum and the accompanying forecasts has done little to persuade the general public that these tools and the expertise that goes with them have got any better since the financial crisis.¹⁵

What we now know is that the period after the referendum did not see either the UK or EU economies entering recession. Instead, as Table 1 shows, most of the economic indicators have remained positive since June 2016. The immediate decision by the Bank of England to increase levels of quantitative easing and lower interest rates, alongside the signals that, for the time being, the Treasury was partially abandoning austerity (saying that the UK budget would not be balanced by 2020) were critical factors in supporting what became a consumer-driven rally in the second half of 2016. By November, however, the growth in retail sales had peaked and begun to decline, perhaps as a result of price inflation beginning to pass through.

Table 1: Economic indicators for the UK and NI since the Referendum result

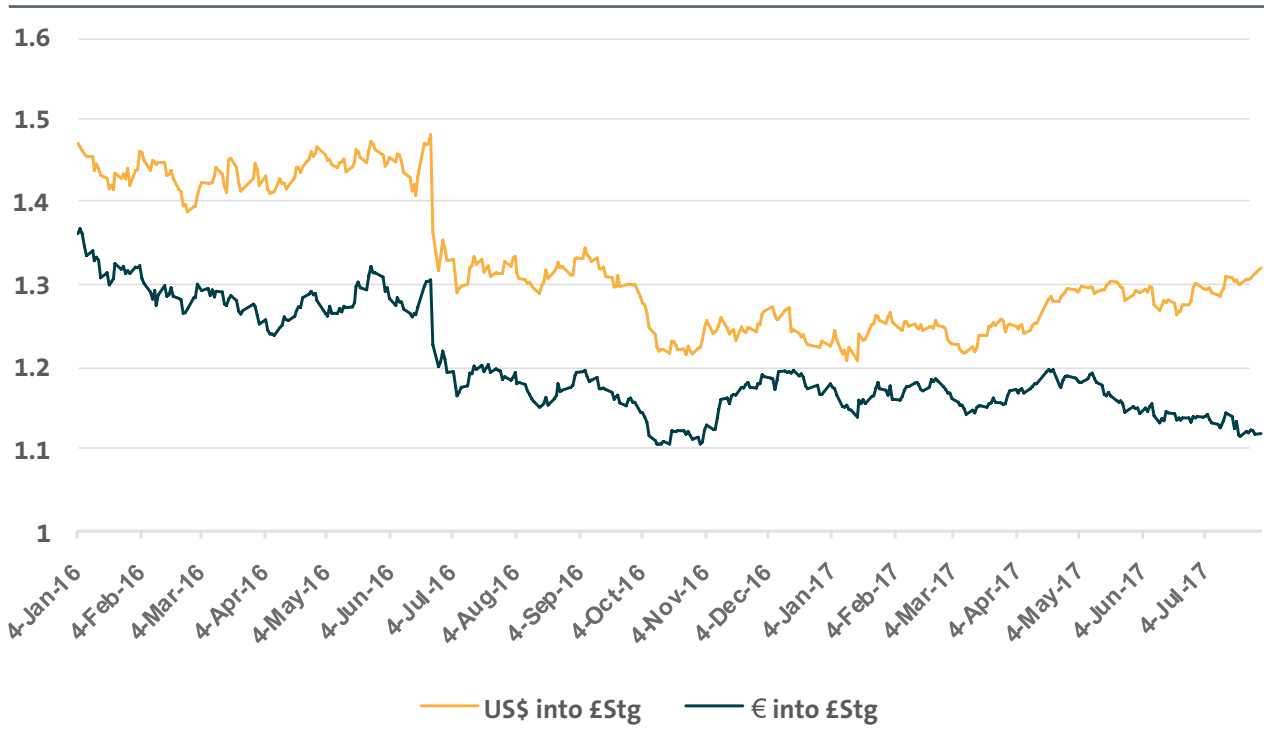
Indicators March/April 2017	Change since Brexit vote
FTSE 100	▲
Sterling into USD	▼
Sterling into Euro	▼▲
UK Retail sales (Jun vs. Mar 17)	▼
UK Consumer confidence (Jun vs. Apr 17)	▲
Economic Surprise Index (Jun vs. Mar 17)	▲
UK Claimant unemployment (Jun vs. Feb 17)	▼
UK New car sales (YoY to Mar 17)	▲
NI PMI: Output/Business activity (Jun vs. Nov)	▲
NI PMI: New business (Jun vs. Nov)	◀▶
NI PMI: Backlogs (Jun vs. Nov)	▼
NI PMI: Employment (Jun vs. Nov)	▲
NI PMI: Input costs (Jun vs. Nov)	▲
NI PMI: Price charged (Jun vs. Nov)	▲
NI PMI: New export business (Jun vs. Nov)	▲

Sources: FTSE 100: London Stock Exchange (27/04/2017); Exchange rate: Bank of England (24/04/2017); Retail sales: ONS; Consumer confidence: GfK; Economic Surprise Index: Ulster Bank on behalf of Bloomberg; Claimant Unemployment: ONS; New car sales: SMMT; NI PMI: Ulster Bank.

Linked to the growing inflationary pressures, the immediate and dramatic drop in Sterling against the US Dollar and Euro has been the most striking alteration since the referendum. This had an immediate impact in the Border Corridor, which operates a dual currency zone in many places.

Although Sterling has not reached parity with the Euro, which almost happened in late 2008, the weakness against the US Dollar has reached thirty-year lows. The depreciation in Sterling may be good news for exporters in NI or the UK as a whole but the evidence of increasing exports is patchy.

Figure 3: Sterling vs Dollar and Euro, Jan. 2016 - July 2017

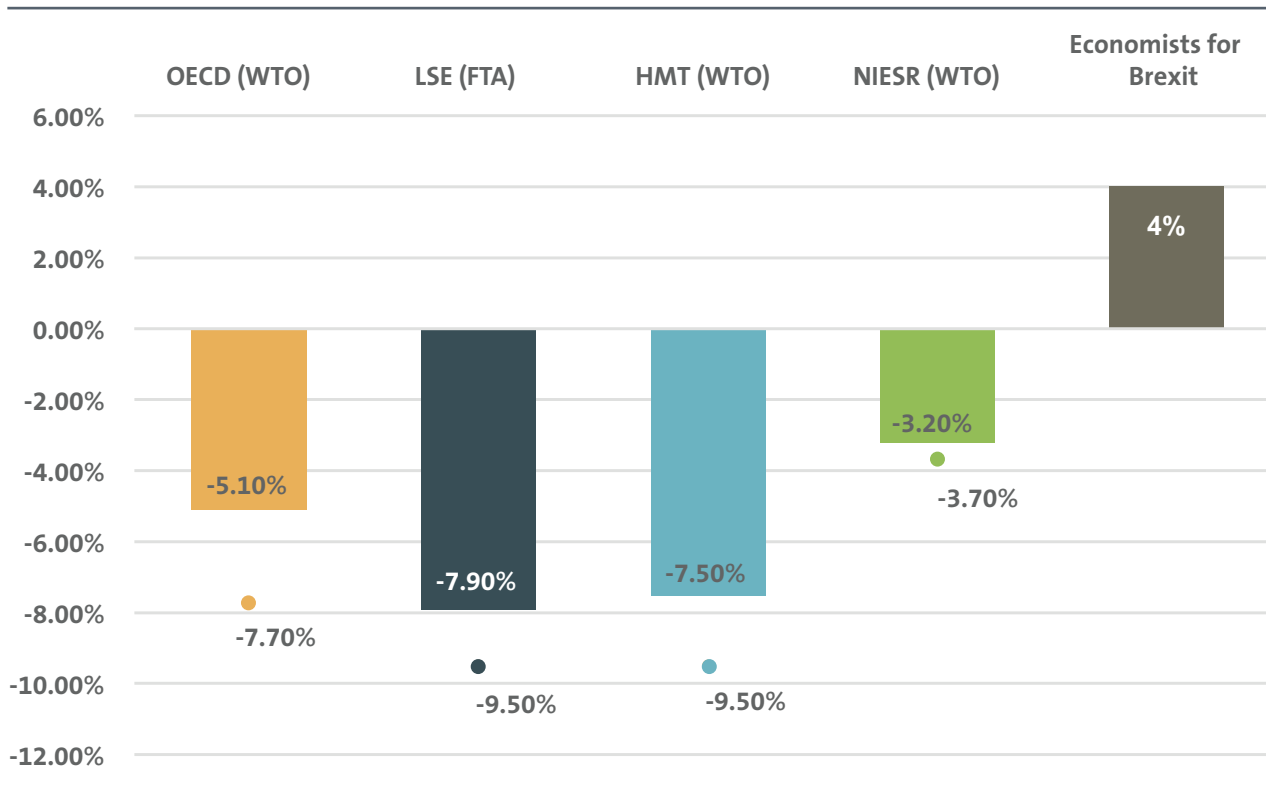


Source: Bank of England

Despite the continuation of consumer-led growth after the referendum and the potential advantages for the UK economy from a Sterling devaluation the consensus among most economists remains that the long-term impact on trade, investment and skills of Brexit will be negative for both the UK economy and the EU's. Figure 4 shows that most assessments,

based on the UK leaving the Customs Union, would lead to the economy shrinking between 3% and 8%. A rare exception to this trend are those economists favouring Brexit who believe that less regulations, the ability to negotiate new trade deals and the potential for further FDI coming to the UK could lead to a 4% addition to GDP.

Figure 4: Central and Lower Forecasts of % change in UK's GDP in the long run



Source: M. Ebell & J. Warren, 'The long term economic impact of leaving the EU', National Economic Institute Review, May 2016, p.154.

The impact of Brexit on the Republic of Ireland has been similarly negative.¹⁶ In the run up to the UK referendum on EU membership was raised there were estimates that Ireland could be the worst affected EU member state. One initial assessment referred to a potential fall in GDP of between 0.8% and 2.6% below baseline by 2030.¹⁷ Research from the Economic and Social Research Institute (ESRI) has supported this initial estimate as a result of Ireland's close trade, investment, energy and migration integration with the UK, even allowing for gains in Foreign Direct Investment. The ESRI forecast that, if the UK were to adopt WTO rules for future trade, then Ireland's GDP would be 3.8% lower after 10 years. This is largely due to a fall of 30% in trade with the UK, representing a decline of 4% in total trade, twice the average for the EU as a whole.¹⁸ Further research has provided sectoral detail of these potential losses, given exposure to UK trade in the Food & Drink, Pharmachem, Traditional Manufacturing and Materials Manufacturing sectors.¹⁹ The agri-food sector has come in for particular attention and Bord Bia have recently developed a Brexit Barometer, essentially a risk analysis tool for exporting firms in the sector.²⁰

Despite this negativity the economy in the Republic of Ireland currently remains a vibrant one. Forecasts for growth in 2017 and 2018 in Table 2 below show this strength, with most above 3% in both years. Indeed, much of the economic narrative in Ireland concerns potential over-heating in Dublin, with a resultant rental and house price bubble, rising employment numbers (to over 2 million in work with all 11 sectors adding people) and concerns only around recent falls in manufacturing and services output.²¹ The Border Area however, has never performed economically to the same extent as the rest of the country and pre Brexit still lags behind economically. The negative impacts of Brexit are thus likely to be felt strongly in the southern border counties.

Table 2: GDP Forecasts for the Republic of Ireland for 2017 and 2018

	Date	2017	2018
IMF	Oct. 2016	3.2%	3.1%
European Commission	Nov. 2016	3.4%	3.3%
OECD	Nov. 2016	3.2%	2.3%
ESRI	Mar. 2017	3.8%	3.6%
Central Bank of Ireland	Apr. 2017	3.5%	3.2%
Department of Finance	Apr. 2017	4.3%	3.7%

Source: Department of Finance, Monthly Economic Bulletin April 2017

The potential economic impact of Brexit on Northern Ireland has not had as much research. A paper for the Assembly's Committee on Enterprise, Trade and Investment and research commissioned by the Department for Enterprise, Trade and Investment from Oxford Economics came to a similar range of reductions of 2.8%-3% by 2030, 1% lower in both cases below the reduction in GDP expected for the UK.²² Other research, from the Nevin Economic Research Institute, has identified sectors at risk from Brexit and then the consequences for NI of the UK leaving the Single Market and the Customs Union.²³

The problem for the Northern Ireland economy is that while it continues to grow, indeed faster than many believed it would in 2016, growth is much less than

needed for a step-change in performance. The forecasts in Table 3 show that the modest growth is set to continue, although there is significant uncertainty around the potential upsides associated with the recent £1 billion pledged as part of the DUP/Tory deal (resulting from the post 2017 election Conservative and DUP alliance in the UK) and the downsides associated with a slowdown in consumer spending.

Table 3: GDP/GVA Forecasts for Northern Ireland for 2017 and 2018

	Date	2017	2018
IMF	Oct. 2016	3.2%	3.1%
UUEPC	June 2017	1.1%	1.2%
Danske Bank	June 2017	1.2%	1.0%
PwC	Mar. 2017	1.2%	0.9%

Source: Department of Finance, Monthly Economic Bulletin April 2017

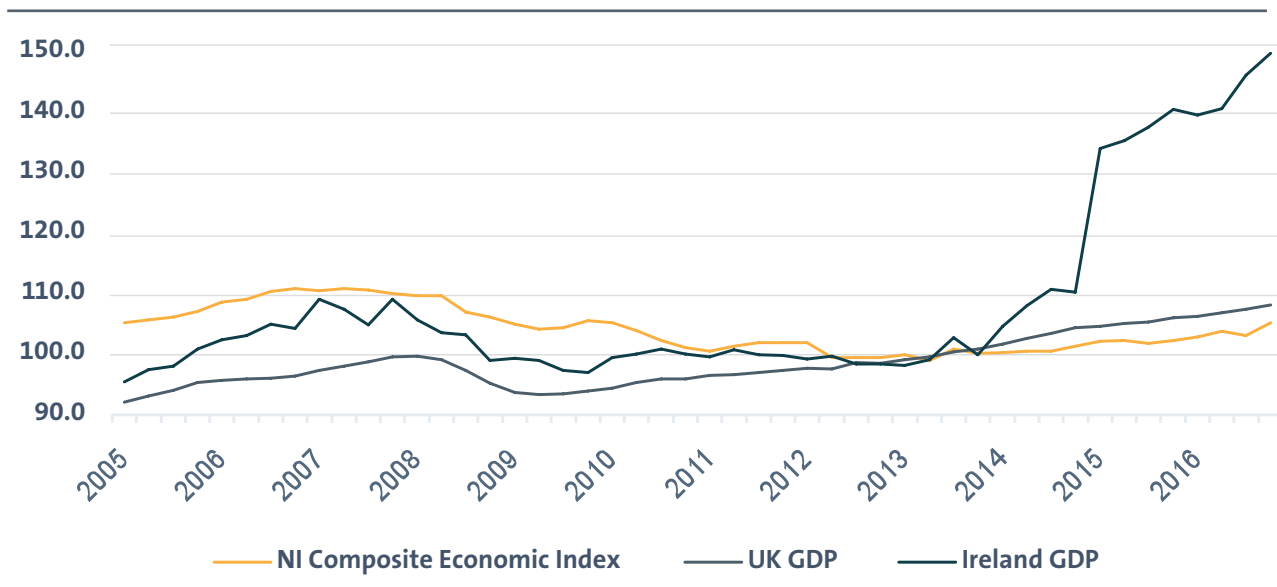
2.3 Conclusions

Although the longer term forecasts have a consensus about the negative economic impact of Brexit, Figure 5 below shows how current economic performance of Northern Ireland and the Republic of Ireland is better than expected, even if the two economies are showing quite different trajectories.

Given the growth in the UK economy, at least until recent months, and the fact that the forecasting expertise of economists did not convince (perhaps due to past sins), a majority of UK voters in the

referendum chose to vote Leave. Certainly, the consensus around negative economic implications, even if they were believed, was not enough to produce a Remain majority.²⁴

Figure 5: Comparison of NICEI²⁵ with GDP for UK and Republic of Ireland, Q1 2008-Q4 2016 (2013=100)

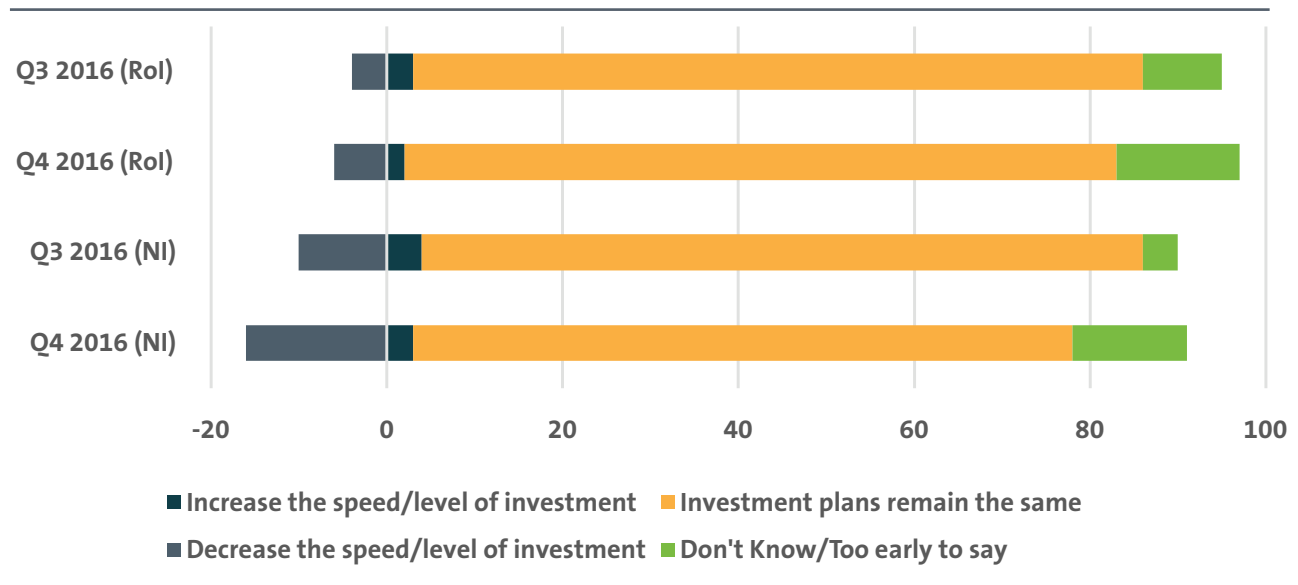


Source: NICEI, Q4 2016 release (Apr. 2017)

Many businesses have felt differently about Brexit from the outset, perhaps due to their dislike of the uncertainty surrounding the subject and the future. According to the largest survey of businesses across the island, InterTradeIreland’s Business Monitor, **less than 1 in 20 firms have made any plans to deal with Brexit**. There has been a slight shift in business sentiment around investment plans for the next 12 months. Most firms, as shown in Figure 6, will

continue with their current plans. However, there is now a growing number between Q3 2016 and Q4 who are either unsure or are planning to reduce the level or speed of these investments. This may be a sign of how wider uncertainty can begin to impact on hopes for job creation or business expansion, something which the Bank of England has been arguing for some time.

Figure 6: Given the referendum result how will your investment plans for the next 12 months change?



Source: InterTradeIreland Business Monitor, Q4 2016

The uncertainty around Brexit is unlikely to disappear in the short term as the negotiations begin in earnest. The importance of inputting regional or sub-regional concerns and particularities into the general process, either via, Dublin, London or Brussels, will also

continue and any opportunities to do this should be grasped by Local Authorities in the Border Corridor. This will be important if the Northern Ireland Executive is not restored in the short term.

3. An Economic Profile of the Border Corridor

Issues of data complementarity make it difficult to present a unified profile of the Border Corridor in this report. However, we are able to detail the population, labour market and enterprise features of the Corridor, in order to draw some general conclusions on the economy of the region.

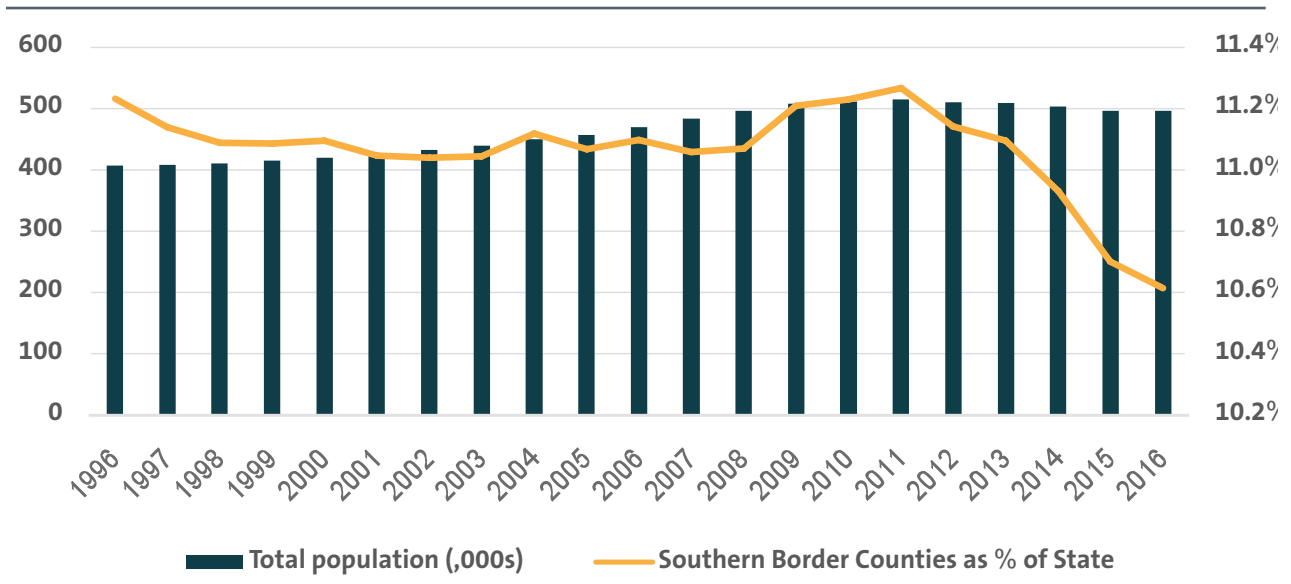
3.1 Population

The Border Region stretches from Newry through Monaghan to Derry/Londonderry the second largest city in NI and is recognised as the sub-regional economic driver for NI within the Regional Development Strategy for NI.

However, the increase is mostly centred in the NI Local Authority areas as the 2016 Census returns show that the Southern Border Counties added on just over 8,000 people and County Donegal actually showed a fall in population due to out-migration. Figures 7 and 8 show how the share of total population in the two

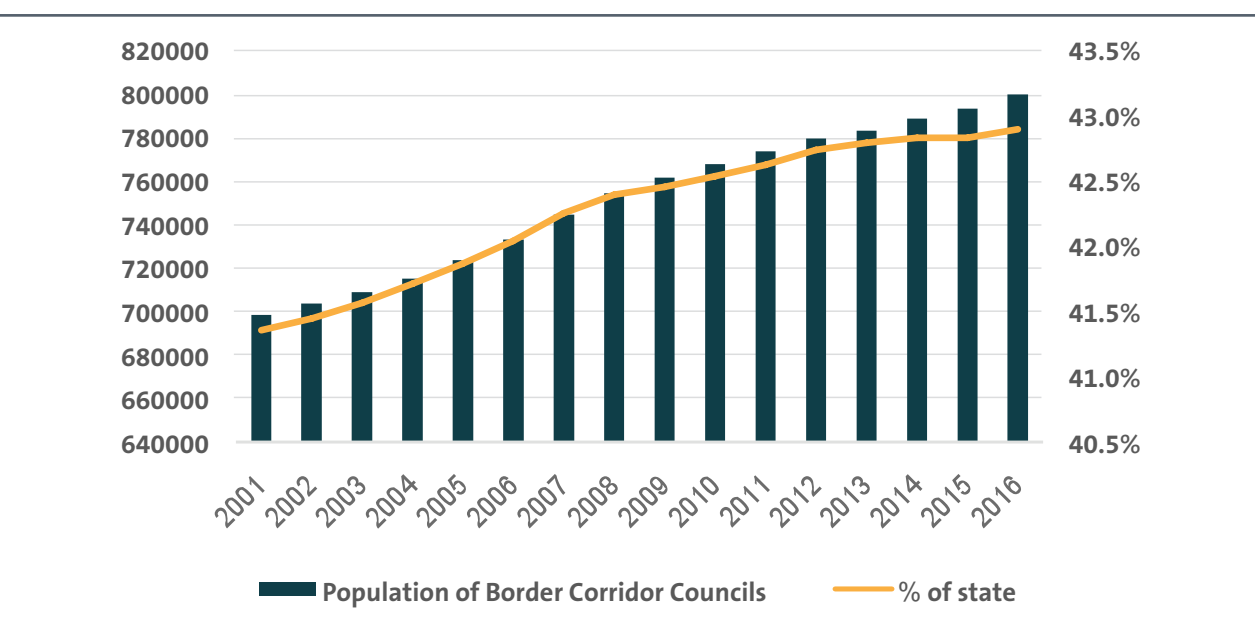
parts of the Corridor is going in different directions – gently increasing on the Northern side and decreasing, quite sharply, on the Southern side. The population may be aging, in line with the island as a whole, but it remains a relatively young one **with 35% of the combined total under the age of 30 years.**

Figure 7: Population of Southern Border Counties, 1996-2016



Source: CSO and UUEPC estimates

Figure 8: Population of NI Border Corridor Local Authority areas, 2001-2016



Source: CSO and UUEPC estimates

3.2 Labour Market

The employment rates (67% and 68%) are very similar for the areas on both sides of the border.

Employment is dominated by five key sectors - retail, health, manufacturing, education and agriculture – which account for around 60% of the total share. In the Southern Border Counties manufacturing and construction have shed jobs in the last 15 years. This has not happened for manufacturing north of the border where agriculture has been the main employment shedder. **Unemployment rates in the Border Corridor have traditionally been higher than**

the state averages and this remains the case today.

That said the fall in unemployment rates since late 2012 has been mirrored in the border region. Another feature to note is that labour participation rates have long been lower in the Corridor than in other parts of the island. How much of this is due to a lack of employment opportunities, in particular for females, is a matter for future research.

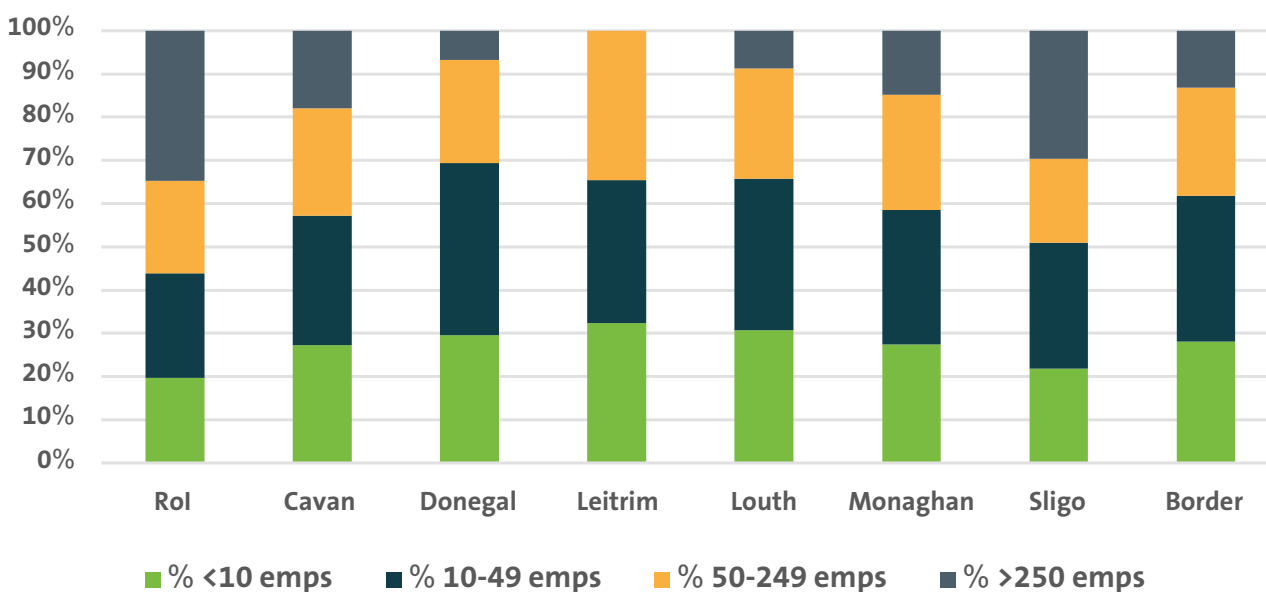
3.3 Business Demography

The data for the two parts of the Border Corridor are not directly comparable as the NI data includes agriculture as a sector but the Republic of Ireland does not.

If we use the sectoral shares from the Local Authority areas north of the border as a proxy for the Corridor as a whole then there may be around **87,000 businesses in the region, 40% of which are in the agriculture sector. Of the other 60%, or 52,217 firms, the highest shares are in retail, hospitality/accommodation, manufacturing and construction.** The data excludes the self-employed where agriculture and construction are particularly strong. In terms of size the profile of

the businesses are quite similar to the shares of micros, small, medium and large businesses. However, as Figure 9 shows, those businesses employing more than 50 staff in the Southern Border Counties account for only 38% of total employment as opposed to 55% in the Republic of Ireland as a whole. Smaller businesses are particularly important employers in Counties Donegal, Leitrim and Louth.

Figure 9: Shares of employment by firm size in businesses in the Southern Border Corridor Counties, 2014



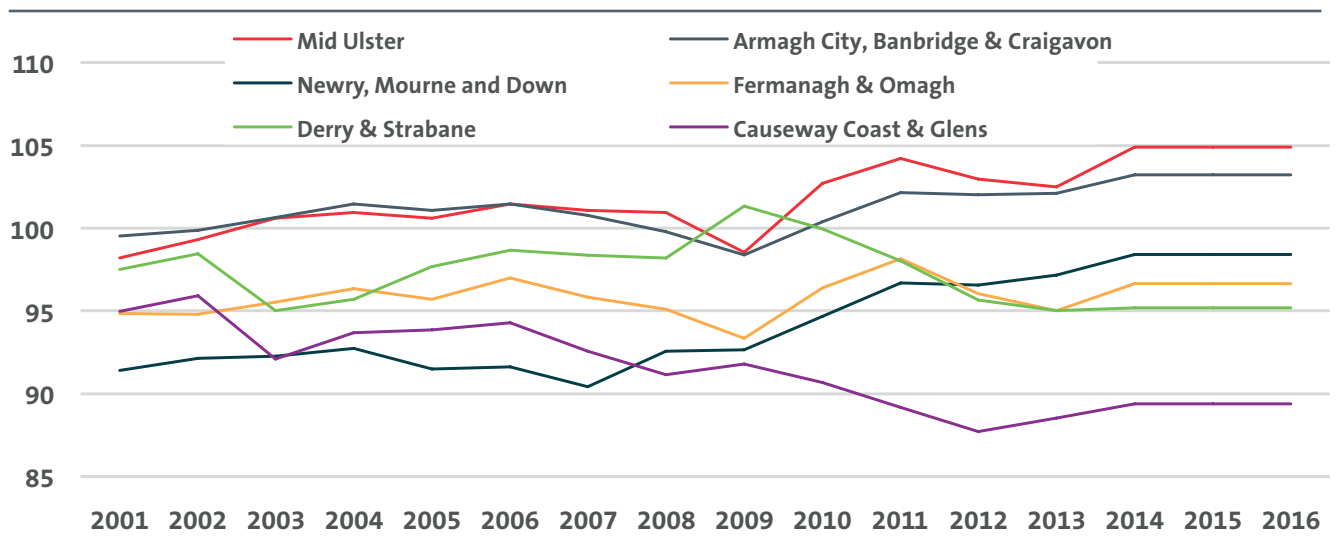
3.4 Productivity

Figures 10 and 11 show the GVA per capita figures for the Local Authority areas across the Border Corridor (aggregated as the Border region in the Central Statistics Office data).

In the case of **Northern Ireland two Local Authorities, Mid Ulster and Armagh City, Banbridge and Craigavon, have productivity levels in most years that out-perform the NI average**, itself a lagging performer when compared to the UK or the Republic of Ireland.

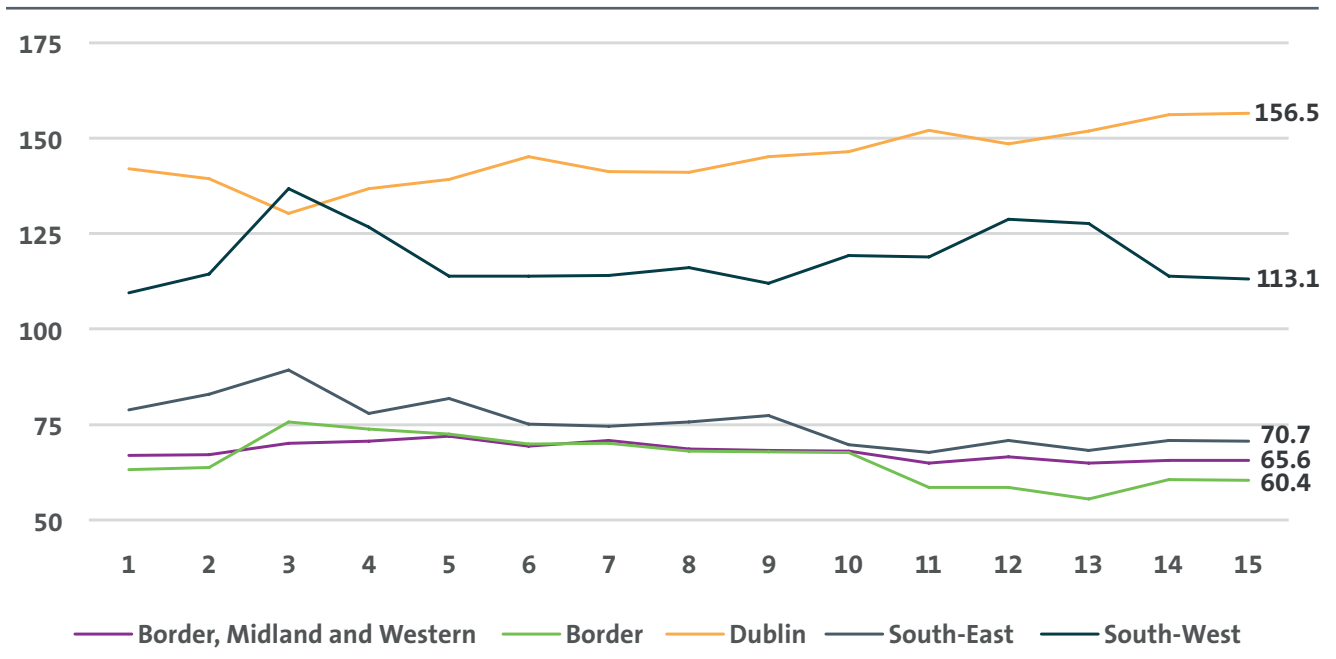
The Southern Border region has not only lagged the national productivity figures and those for Dublin and the South West, but also other poor performers, such as the South East.

Figure 10: Indices of GVA per capita in the NI Border Corridor Council areas, 2001-2016 (NI = 100)



Source: NISRA and UUEPC estimates

Figure 11: Indices of GVA per capita in the Southern Border Corridor Counties, 2001-2016 (RoI = 100)



Source: CSO and UUEPC estimates

3.5 Conclusions

This brief profile of the Border Corridor region supports earlier and more detailed research by John Bradley and Michael Best which referred to ‘bypassed places’.²⁶

This brief profile of the Border Corridor region supports earlier and more detailed research by John Bradley and Michael Best which referred to ‘bypassed places’. They found good examples of successful businesses which were developing and selling differentiated products or services to markets across the island and beyond. Indeed parts of the region have higher levels of entrepreneurship, at least than other parts of Northern Ireland.²⁷ However there are too few of these firms and, **outside the areas along the Belfast-Dublin Corridor and those Local Authority areas in the middle of NI, the productivity rates tell a worrying story.**

The problems identified by Bradley and Best in 2012 have not been resolved since. Consultations for this paper would suggest that they are the very regional weaknesses and vulnerabilities that Brexit might well turn a spotlight upon.²⁸ The Bradley and Best report argued for a **greater regional focus in policy-making in both Northern Ireland and the Republic of Ireland based more upon the local realities than either a desire to market an area or to deliver national agendas at a local level.**²⁹ Any strategy developed which purports to address the risks posed or opportunities offered by Brexit for the Border Corridor would do well to take the advice from Bradley and Best to rethink regional policy across the island from the bottom up.

4. Areas for Consideration for the Border Corridor

Figure 12 shows the areas within the Border Corridor which will be impacted by Brexit.

This section of the report will deal with each of the areas in turn with a particular focus on trade, agri-food and fisheries, movement of people and

inward investment – and will offer some considerations about the challenges and opportunities which might arise.

Figure 12: Potential areas of impact from Brexit



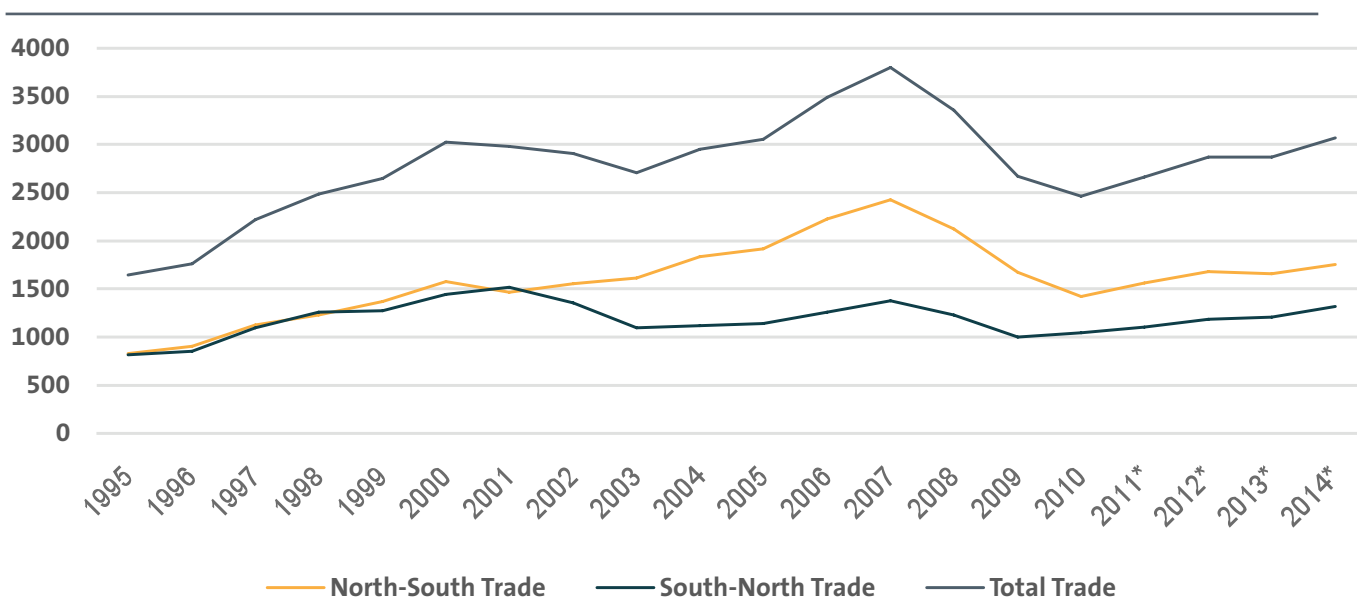
4.1 Trade: Cross-border trade and exports off the island

Cross-border trade

Figure 13 shows how total cross-border trade in goods amounts to just over €3 billion. This figure reflects four years of recent growth in both directions after the recession of 2008 wiped off almost a quarter of the trade’s value. More recent data, released by the HMRC for Q1 2017, shows a continuing recovery in the value of cross-border goods trade, currently driven by demand from Northern Ireland for goods from the Republic of Ireland.³⁰ Cross-border trade is of much more aggregate importance to the NI economy than

to that of the Republic of Ireland, where it is a small part of exports to the UK (worth €34 billion in 2016).³¹ The cross-border goods trade accounts for less than 2% of Ireland’s total exports (or less than 1% of GNP), while the combined cross-border sales of goods and services from NI accounts for approximately 10% of its GVA. While cross-border trade is much more important to small firms in the Republic of Ireland – around a sixth of small firm exports – this also pales beside the share in NI: two thirds of external sales by smaller businesses.

Figure 13: Cross-border trade in goods, 1995-2014



Source: InterTradeIreland

Analysis from the Irish government has found that three goods sectors – **Food & Live Animals, Manufactured Goods (eg: timber, paper or rubber goods) and Minerals (building material and metals) – are the sectors most exposed to any changes in trade with the UK.**³² These three broad sectors account for around 40% of Ireland/UK trade but command a higher share of cross-border trade: 54% of Ireland’s cross-border sales and 57% of NI’s.³³ Therefore particular sectors – we will return to agri-food in the next section – and the regions where these are concentrated – will be more exposed to any trade shocks arising from Brexit. These exposures need to be taken into account in any consideration of the trade issue.

Consultations for this report with a range of firms across different sectors have found that **businesses and employees based in the Border Corridor tend to be more concerned about Brexit than you find elsewhere.** One reason for this, supported by economic research, is that proximity to a border leads

to greater levels of trade with the neighbouring country or region than might be found the further away from the border you travel.³⁴ Although we lack good sub-regional trade data for the island of Ireland, the InterTradeIreland Business Monitor survey has found that firms in the border area are much more likely to be involved in cross border trade – 23% across the island of Ireland compared to 30% in the South & West of NI and 29% in the Southern Border Counties. **Firms in the Border Corridor also sell much more of their output on a cross-border basis compared to firms elsewhere who are involved in that trade, perhaps a third as much again.**³⁵ For example, figures from Invest NI data for their client firms in the South, West and North West regions (those closest to the border) shows that the Republic of Ireland is a key market for these companies, where they sell more than 8% of their total turnover. The recent UK Government paper on the Irish border recognises that those Local Authority areas closer to the border had a higher propensity to export.³⁷

Exports off the Island

As noted above the UK market is of great importance to the Republic of Ireland. In 2014 18% of services exports and 14% of goods went to the UK (including NI). In the same year the share of exports from the Southern Border Counties going to the UK was as high as 33%, almost twice the national average. Exports from NI are even more concentrated on the market most of risk of being impacted by Brexit: the EU. In 2014 58% of NI's total exports went to the EU, 22% going to member states other than Ireland.

Issues and Actions to consider by Border Corridor

Local Authorities

Short term: Currency

- In the immediate future the consultations with businesses point to the main issue being how to deal with the currency fluctuation referred to above. A recent note from UBS suggests that while Sterling will recover some ground against an over-valued US Dollar it will remain around the same value against the Euro.³⁹
- This has led to talk of a Stabilisation Fund for Irish exporters to the UK⁴⁰ but, in the meantime, the promotion by Local Authorities of available currency and cash management advisory and online trading and exporting supports to businesses will be critical. This will equally apply to retailers and tourism operators, given a limited ability to pass through the costs of a weaker pound to consumers.

Medium term: Risk analysis and planning

- When discussion turns to mitigating business and trade risks in the face of Brexit a key to this will be to better understand the extent to which some sectors – and not just agri-food – are most exposed to tariffs. Recent research from InterTradeIreland on the impact of the application of WTO tariffs on cross-border trade contains the startling fact that while only 6-7% of products have tariffs of 15% and higher, they account of for shares of 19% of South-to-North goods trade and 33% of North-to-South.⁴¹
- The sectoral analysis needs to be quickly followed by further work at firm level on the exposure to risk

from trade shocks for different types of businesses (indigenous v multinational and small v medium or large). Consultations with firms in the Border Corridor suggest that larger firms, with experienced management teams, are much further along in planning for Brexit. Other firms, with more of their turnover exposed to risk, may need assistance.

- Much of the understandings of these sectoral and firm-level dependencies are likely to be completed at the state level, both North and South. Local Authorities in the Border Corridor should ensure that the regional angle and indeed any additional exposure to risk continue to be considered in this work.

Long term: Diversification

- As the market destination figures show, both Northern Ireland and the Republic of Ireland continue to be dependent on a small number of markets. Part of this is due to geography and history – thus the British Isles remains the key market for most businesses located there. And, as a later section suggests, access to this market is still important in FDI location decisions.
- The movement towards greater diversification of trade will need all government bodies, including local government with their economic development competencies, to be working together to ensure business can receive the correct assistance at each step along an export pathway that might be about to get more tricky to navigate.
- Diversification – both of markets and, equally importantly of the export base beyond a small number of firms – takes a significant amount of time but can be done. The share of Ireland's exports to the UK has fallen from 50% in 1973 to around 30% now, while, in the case of NI, HMRC data suggests that twenty years ago 70% of exports went to EU member states and this is now closer to 55%. In both cases nearby markets remain of crucial importance for goods and most services, but North America and other markets are becoming more important. The trends suggest trade diversification is possible but slow.

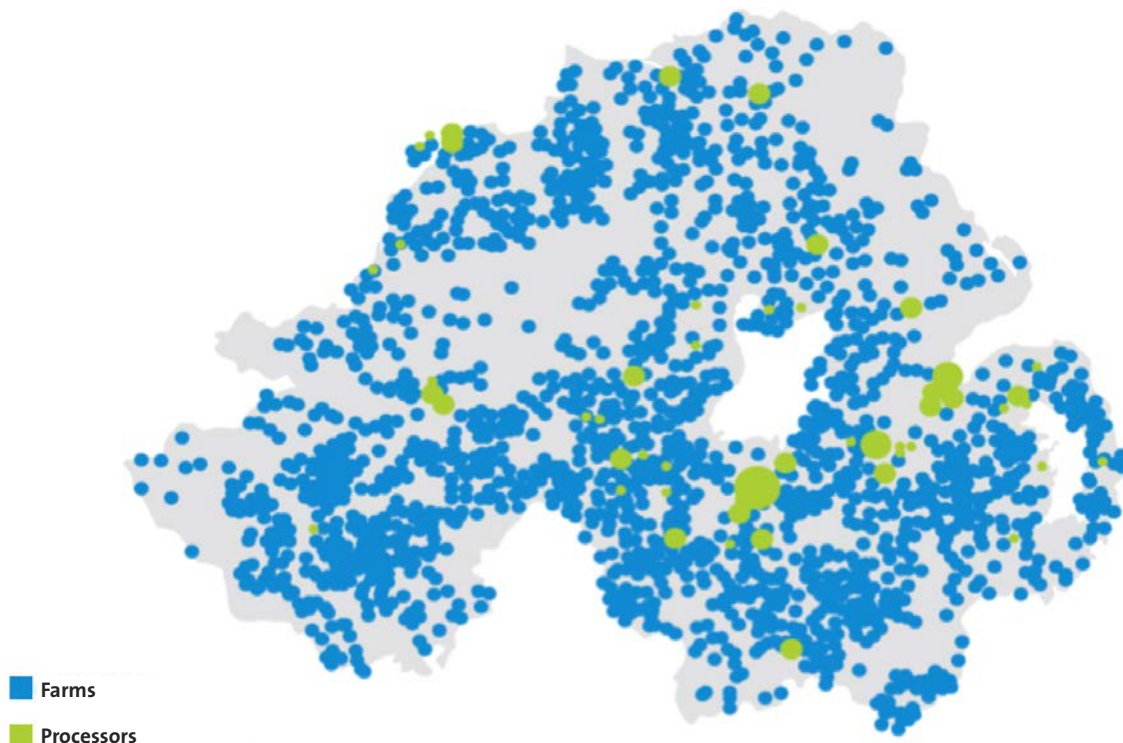
4.2 Agri-Food Sector: Exposure to Risk?

The agri-food sector is unique within the wider Brexit debate due to the importance not only of Ireland/UK trade in agri-food goods, but also the integrated nature of the supply chain on the island of Ireland to deliver these exportable goods, the risks of high tariffs in the case of WTO rules applying, and the contribution of CAP to farm incomes in NI.

The industry is an important employer across NI and the Republic of Ireland, involving 19,000 direct employees and 25,000 family farms north of the border and 52,000 and 140,000 the respective numbers in the South. There is also a regional concentration to consider for the purpose of this report. In the Republic of Ireland 15% of all Food & Drink processors are based in the Border region, where these make up 16% of all manufacturing businesses (second only to the South East for their share). ‘Other

Foods’ (ie: bakeries, small food producers, etc) make up most of the businesses but 11% are dairy processors and 20% meat producers, both slightly higher than the national averages. Figure 14, taken from a recent Northern Ireland Food and Drink Association report, shows a similar concentration of farms to the south and west of NI and processors in Armagh City, Banbridge and Craigavon and Mid Ulster Local Authority areas.

Figure 14: Concentrations of agri-food employment in Northern Ireland, 2012

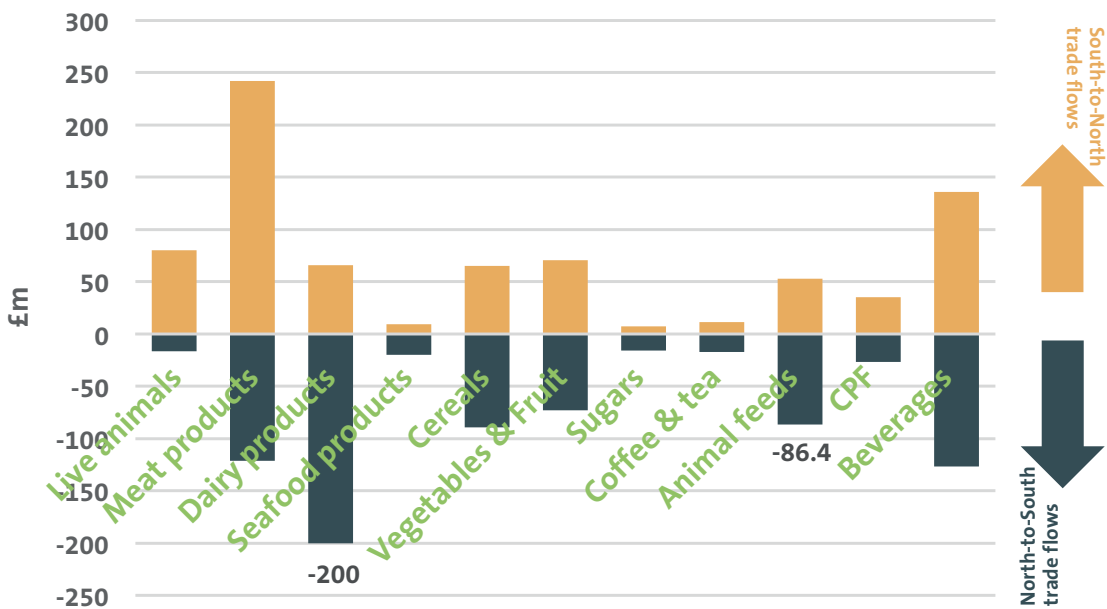


Source: NIFDA, Brexit: Challenges and Opportunities for Northern Ireland Food & Drink (Nov. 2016)

The agri-food industry is a sector characterised by low margins, high levels of intra-firm competition and is perhaps the most integrated on an all-island basis. As one witness to a House of Lords Committee put it: ‘Many agri-food businesses are structured and operate on a cross-border basis.’⁴³ In the medium term this may offer further opportunities to further integrate all-island supply chains, if competition rules allow. Already, for example, the Irish-owned firms currently control 60% of NI’s dairy processing capacity. Although the supply chains flow in both directions across the

border, Figure 15 shows how dairy products and animal feeds are traded from North to South and meat products in the opposite direction. These flows are important not only for the large firms which account for much of the value of meat and dairy processing but also for smaller producers, closer to the border. Recent research from the Centre for Cross Border Studies found that the cross-border sales were destined for places outside the border region, suggesting that the area is rather a centre of production than consumption.⁴⁴

Figure 15: Cross-border flows of agri-food products, 2016

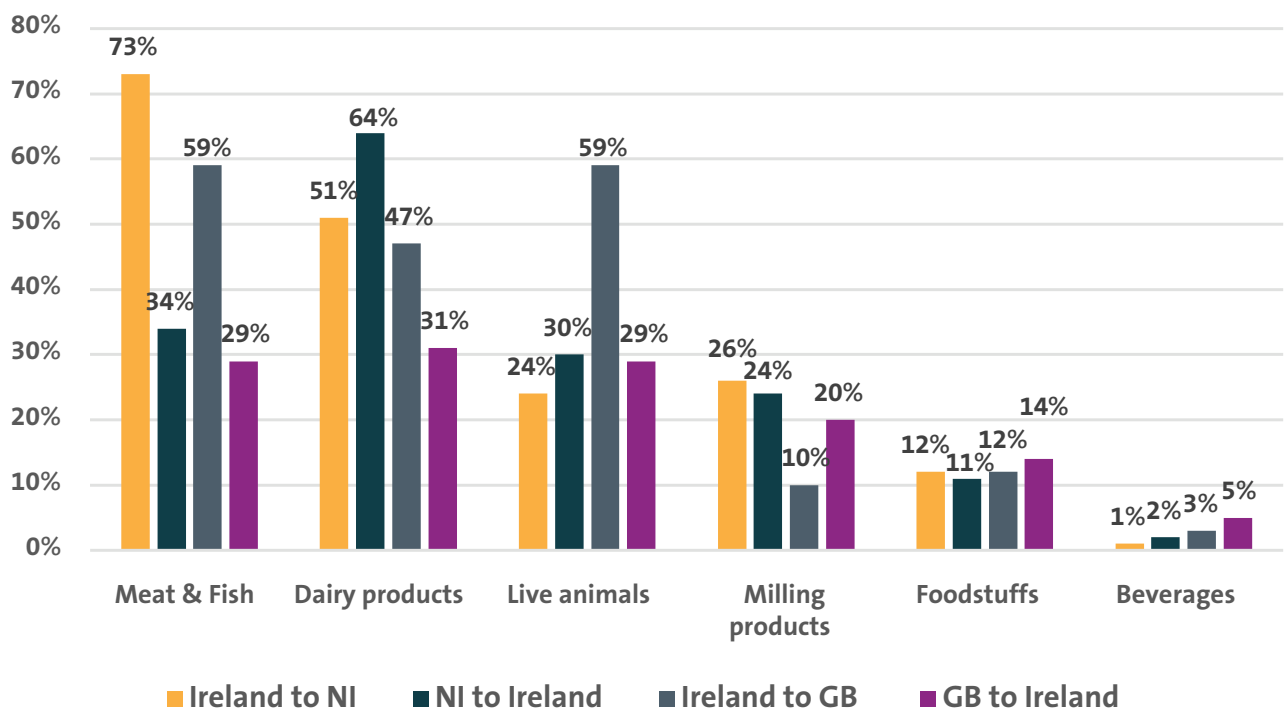


Source: HMRC Regional Trade Statistics

Turning to tariffs under WTO rules, these vary greatly from product to product depending on whether they are imposed by weight of the good being traded or at the product level. Figure 16 shows the effective tariffs that would be levied on agri-food products given the current patterns of cross-border and Ireland/GB trade

if the WTO rules were adopted by the UK on exiting the Customs Union. One estimate of the cost of additional paper associated with tariffs, at the level of the individual border crossing is in the range of €20 to €80.⁴⁵

Figure 16: Sector level effective tariffs on agri-food products by trade direction



Source: ESRI research for InterTradeIreland

Research for InterTradeIreland by the ESRI offers some estimates of the impact of WTO tariffs and non-tariff barriers on cross-border trade:

- Tariffs only would see cross-border trade fall in value by 9%;
- With the addition of non-tariff barriers it would decrease by 16%; and
- With the addition of an effective devaluation of 10% in Sterling, the fall would be 17%, although some sectors would see trade in a North to South direction increase – notably machinery, chemicals and beverages.

However, for agri-food products generally the decline in trade value would range from 3% for live animals to 52% for dairy products. **Given the importance of dairy products to NI’s exports to the Republic of Ireland, more than half (56%) of the overall fall in cross-border trade would come from the declining sales of milk and cream products.**⁴⁶

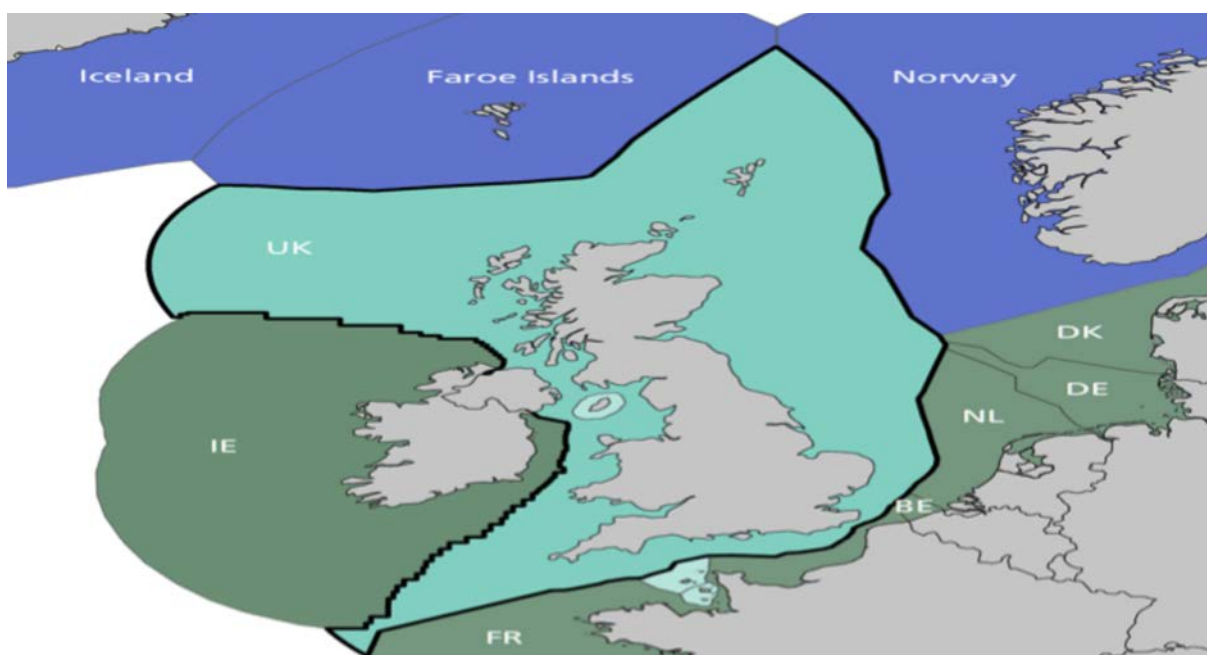
The agri-food sector will also be thinking of changes post-Brexit to the Common Agriculture Policy (CAP). **Between 2014 and 2020 €2.3 billion will be given as CAP Direct Payments to farmers and a further €251 million will be spent on other rural development and fisheries supports.** It is promised that this will not change suddenly, given that the contribution to farm incomes in NI is significant. Figures from DAERA show that farm incomes in 2016 stood at £244 million, while payments to NI from CAP in the same year amounted to £276 million. This suggests that many farmers, due to prices and costs, were actually losing money in 2016 and only kept afloat by Single Farm Payments. And not just in 2016 as DAERA estimates that the payments mounted to an average of 103% of farm incomes in NI in 2014/15. Sub-regional figures for CAP receipts in 2015 show that there were more than 23,000 recipients in Local Authority areas along the border who received £180 million in direct payments (approximately 70% of the NI total) and a further £51 million in rural development funding.⁴⁸

Fisheries

The question of the fisheries forms a separate issue and one that affects two Local Authority areas in particular: Newry, Mourne and Down where 7% of UK landings and 6% of the UK value (worth more than €100 million) take place and County Donegal where 65% of Irish landings and 40% of value happens. Currently the Common Fisheries Policy, first signed in 1983 and most recently updated in 2013, is agreed by EU member states on total allowable catches and quotas. The UK fishing industry has long criticised the centrally agreed quotas and Minister Michael Gove has recently opened the debate about what Britain will do about access to its waters after Brexit.⁴⁹ Given that a third of Irish landings are taken from British waters (two thirds in the case of mackerel), the risks from any uncertainty are clear.

There are models for new agreements post-Brexit, notably the EU's current agreement with Norway.⁵⁰ Here, agreement has been reached on total allowable catches of shared fish stocks (to manage resources), the division of these between the two parties and mutual access to fishing grounds. The map in Figure 17 shows how mutual access to the UK and Irish Exclusive Economic Zones will be critical in the wake of Brexit. How far this will be possible to satisfy both the fishing industry and the seafood processing industry in both NI and the Republic of Ireland (and indeed differing interests between the North West and South West) remains open to question.

Figure 17: Map of the UK, Irish and Nordic Exclusive Economic Zones



Source: House of Lords European Union Committee, Brexit: Fisheries.

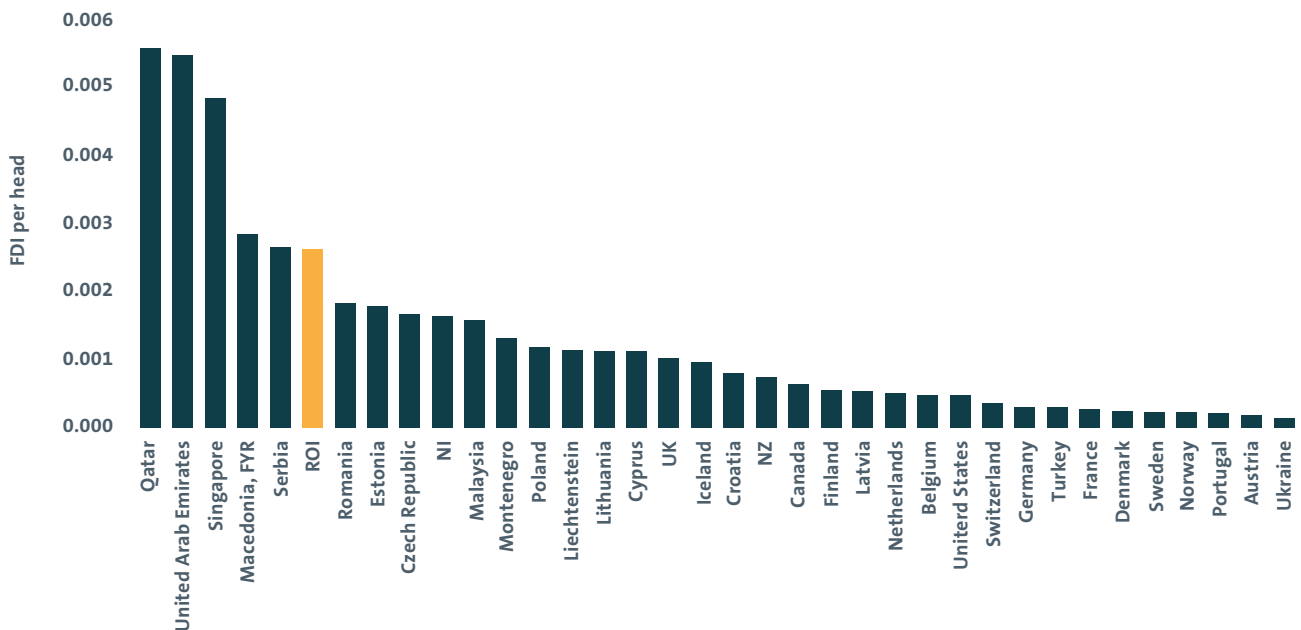
Issues & Actions to consider by Border Corridor Local Authorities

- **Currency:** As noted above for cross-border trade the volatility of the exchange rate and the general depreciation of Sterling against the Euro calls for the promotion of better currency management by businesses and individuals as part of wider economic development supports. This is especially the case for this sector given both the higher engagement in cross-border business but also the low margins involved which make food and drinks businesses, currently in particular in the Southern Border Counties, susceptible to exchange rate swings.
- **Cooperation and clustering:** The agri-food sector is already highly integrated in terms of cross-border and all-island supply chains. Indeed, there is talk of further advances in this, perhaps in the shape of mergers between Irish and British food businesses. However, there are also opportunities for greater all-island cooperation in the sector, to support those smaller and medium size firms which make up the bulk of agri-food businesses. Proposals identified in an InterTradeIreland report could form the basis of new cooperative initiatives, starting first in the border corridor.⁵¹
- **Continuation of CAP:** At present the debate is on the replacement of the current CAP by a new UK Agricultural Policy. However, agricultural policy is a devolved matter and the NI Assembly and DAERA are responsible for the implementation of CAP within Northern Ireland, which has allowed for some flexibility in this area. **The continuation of this regional flexibility will be critical given both the importance of direct payments to farmers in the border corridor but also the need to retain a policy coherence and alignment with the Republic of Ireland in light of the co-dependencies in the agri-food area.**
- **Concentration and special arrangements:** The extent of the regional concentration of employment, single farm payments, cross-border market focus and reliance on migrant labour does raise the need to debate whether a special arrangement or deal is necessary for the agri-food sector. Gathering further information on the importance of the sector to the border corridor should remain a joint priority of Local Authorities there.

4.3 Foreign Direct Investment: What will drive future location decisions?

Foreign Direct Investment in the recent past has proved to be a key economic driver for both Northern Ireland and the Republic of Ireland. Figure 18, shows that both Northern Ireland and the Republic of Ireland are among the top 10 countries or regions for FDI invested per head of population. A possible explanation for this may be the lower rate of corporation tax in Ireland and access to both the UK and the EU single market enjoyed by both parts of the island.

Figure 18: Average total FDI per head of population for selected countries around the world, 2010-2015



Source: FDI Intelligence, World Bank & UUEPC analysis

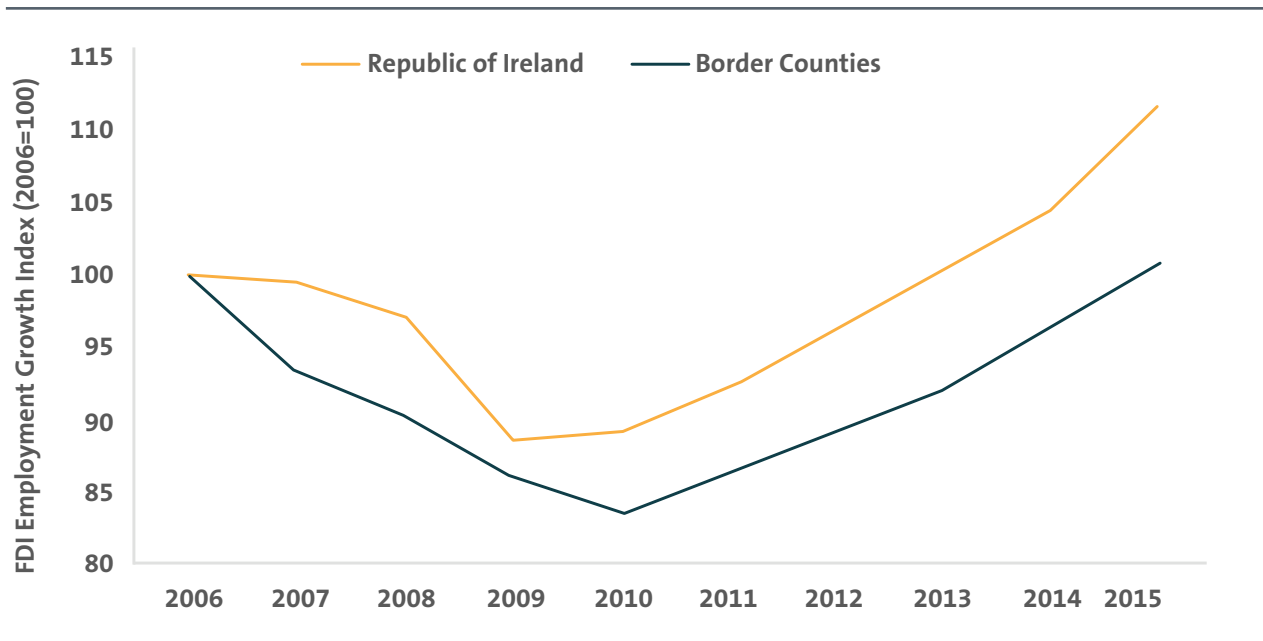
At a regional level performance data from Invest NI, at a local authority district level, shows that since 2012/13 the border Local Authority areas have seen the creation of 3,900 jobs (30% of the NI total) by foreign owned firms. Engineering, ICT, FinTech, food production and business services firms contributed the majority of the job creations.

Over the 5 years these areas have received a total of £320m worth of foreign investment (not including a major investment by one firm) with a majority of this investment coming from America (52%), followed by the Republic of Ireland (19%), other EU countries (13%), non-EU countries (9%) and finally the rest of the UK (7%).

In the Southern Border Counties foreign owned firms have added over 2,000 jobs (an increase of 20%) from 2010 to 2015, bringing their employment levels back to the 2006 peak of 11,800 jobs. Figure 19 shows that, relative to the Republic of Ireland as a whole, FDI employment growth has been lower in the Southern Border Counties. Much of this difference can be attributed to local losses of manufacturing employment (15% of total jobs) between 2006 and

2010, as a result of both the global financial crisis and a broader sectoral shift. These losses have been offset by gains in the service sectors (43% increase between 2010 and 2015) with the **most jobs gained in the internationally traded service sector**. This change in the sectoral make-up is also resulting in a continuing shift away from the UK market to a more global market place.

Figure 19: FDI employment change index (2006=100) in Republic of Ireland and Border Counties, 2006-2015



Source: Department of Jobs, Enterprise and Innovation, Annual Employment Survey (2015)

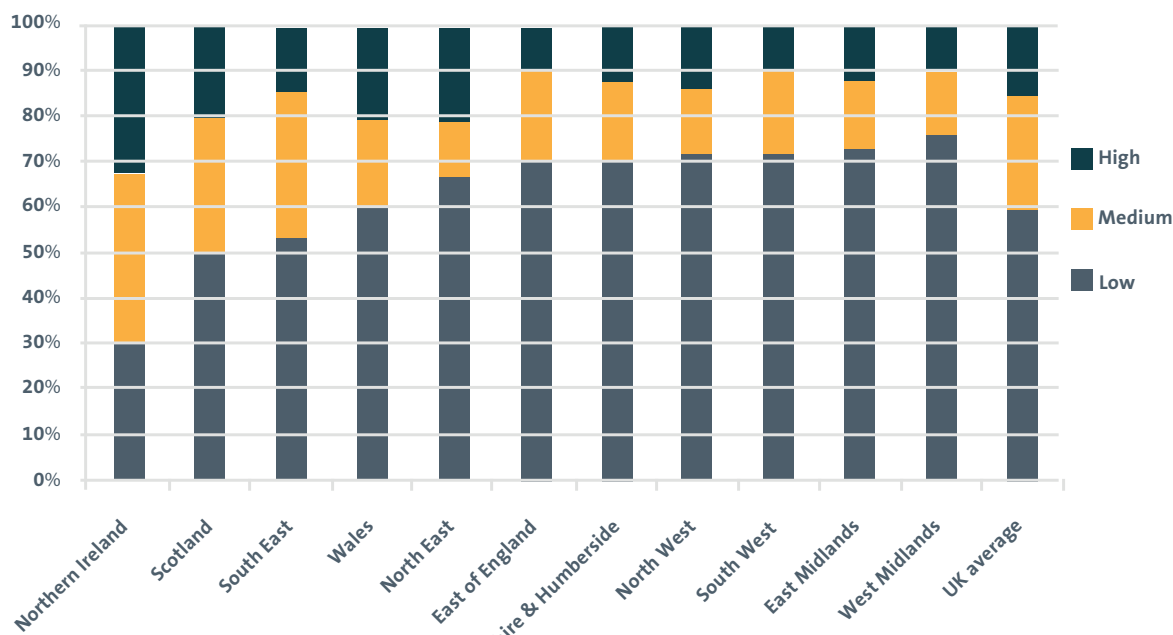
Although FDI job creation in the Southern Border Counties has not been at the same relative level as the Republic of Ireland in the past decade there is an expectation that there will continue to be a reliance on this source of growth well into the future. Brexit places the wider locational choices made by firms under the microscope, as many international firms currently see the UK and the Republic of Ireland as being similar places to locate. Recent research by the

ESRI identified a lower corporation tax rate as one key to attracting FDI, but also found that other locational factors are also taken into account before investments are made, including local market size, access to the European single market and low production costs. **Indeed, non-EU investors appear to value access to the European single market as much as a low corporate tax level, whereas EU (including UK) investors value low costs more than anything else.**⁵²

In Northern Ireland, future FDI locational decisions are likely to be influenced by the proposed implementation of a reduced corporate tax rate (to 12.5%) and the outcome of the Brexit negotiations on the future nature of the Irish border and wider access to EU markets. Current foreign-owned businesses located in NI cite the skill levels of the resident population and the ready availability of employees as key. Indeed, recent research has found that the

majority of the FDI firms located in the border Local Authority areas are there due to the supply of workers (25%) and the availability of suitable infrastructure (21%). With regard to access to the EU markets, findings from research, shown in Figure 20, highlight the risk to current FDI in NI, with as much as 70% of this at risk if membership of the single market changes.

Figure 20: Risks to UK regional FDI job creation if the UK doesn't join the EU single market



Source: Wavteq, The impact of Brexit on FDI into the UK (July 2016)

The figures above suggest that, while relatively more FDI has located in other parts of the island than in the border corridor, these investments are still important in terms of the 6,000 jobs created in the last five years. The uncertainty about future FDI levels, due to the recent election of President Trump in the USA and the Brexit decision, mean that a continuation of even this level of employment growth should not be taken for granted. The ESRI research suggests that, in light of Brexit, the Republic of Ireland may become a more attractive investment proposition than the UK, especially for service sector firms seeking access to the Single Market regardless of corporate tax level parity. On the other hand, access to the large UK market from NI will also continue to be a factor in location decisions. **Indeed the potential for Local Authorities in the border corridor to benefit from greater cooperation around locational decisions may offer an opportunity.**

Issues & Actions to consider by Border Corridor Local Authorities

- In Northern Ireland the border Local Authority areas may need to engage in the debate over whether the

lowering of the corporation tax rate should be made soon or not at all, due to the UK government's decision to cut their rate over the coming years (from 20% in 2017 to 17% in 2020). Given locational decisions noted above the continuing uncertainty and any loss in advantage may make NI a less attractive proposition.

- Given the motivations of investors the Local Authorities across the border corridor need to ensure the area remains a competitive one, with delivery in improvements to infrastructure (wireless internet, etc.), skill levels and transport connectivity vital to Community Plans and Local Economic and Community Plans.
- Both Northern Ireland and the Republic of Ireland border areas need to have policy certainty surrounding access to markets (UK and EU single market).
- Are there opportunities to influence decisions on the FDI both border areas want to attract, eg: with possible incentives to attract firms wanting to grow the R&D base in the area by encouraging engagement between Higher Education/Further Education institutions and firms.

4.4 Movement of people: Both an internal and external issue

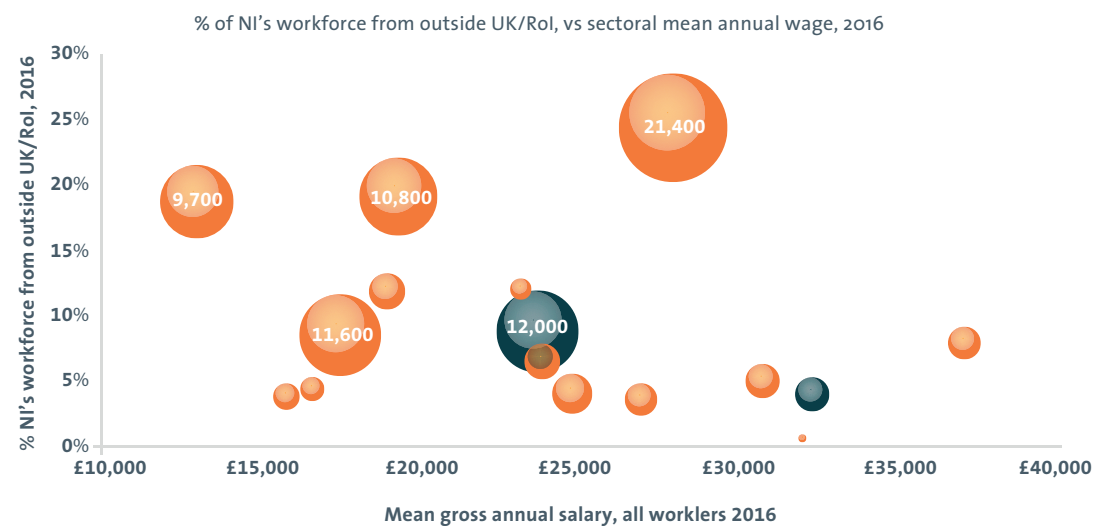
Immigration proved to be a central part of the Brexit debate, with many voters using it as one of their main reasons for voting leave.

According to a survey of 12,300 voters conducted on the day of the EU referendum (24th June 2016), one-third (33%) of people voted leave based on their thoughts towards immigration and the desire for control by the UK over its 'own borders'.⁵³ In Northern Ireland the link between immigration and a Leave vote may have been less strong than in England and Wales. A quarter (24%) who 'strongly disagree' that 'immigration has been good for Northern Ireland's economy and society' still voted to remain.⁵⁴ This makes the movement of people a key part of the Brexit debate and subsequent negotiations. However, on the island of Ireland it is complicated by the Common Travel Area where Irish and UK citizens can travel in a border-free zone and enjoy the same rights throughout the area. Maintaining this status quo is a central aim of the UK and Irish governments.

The figures show the importance of immigration to both parts of the island. Since 2002 over 153,000 overseas nationals have made applications in NI for the registration of National Insurance numbers. Over

72,400 (or 47% of the NI total) of these applications have come from overseas nationals based in the border Local Authority areas. The vast majority (around 70%) of the applications were made by EU nationals from outside the British Isles, the rest were from non-EU nationals. Across NI it is evident that some sectors are more reliant on migrants than others. Figure 21 shows that the Manufacturing and Admin & support services sectors are the most reliant on migrant labour with EU and non-EU migrant workers making up to as much as 25% of the total workforce. The importance of manufacturing might explain why almost 43,000 (or 58%) of the applications from the border Local Authority areas have come from Armagh City, Banbridge & Craigavon and Mid Ulster Local Authority areas, where a high level of manufacturing jobs are available. Figure 21 also shows that two of the three largest employing sectors in NI (Health and Retail) have 10% of their workforce made up of those from outside the UK and Ireland.

Figure 21: % of foreign nationals employed by sector, Average sector wages & Size of sector in Northern Ireland, 2016

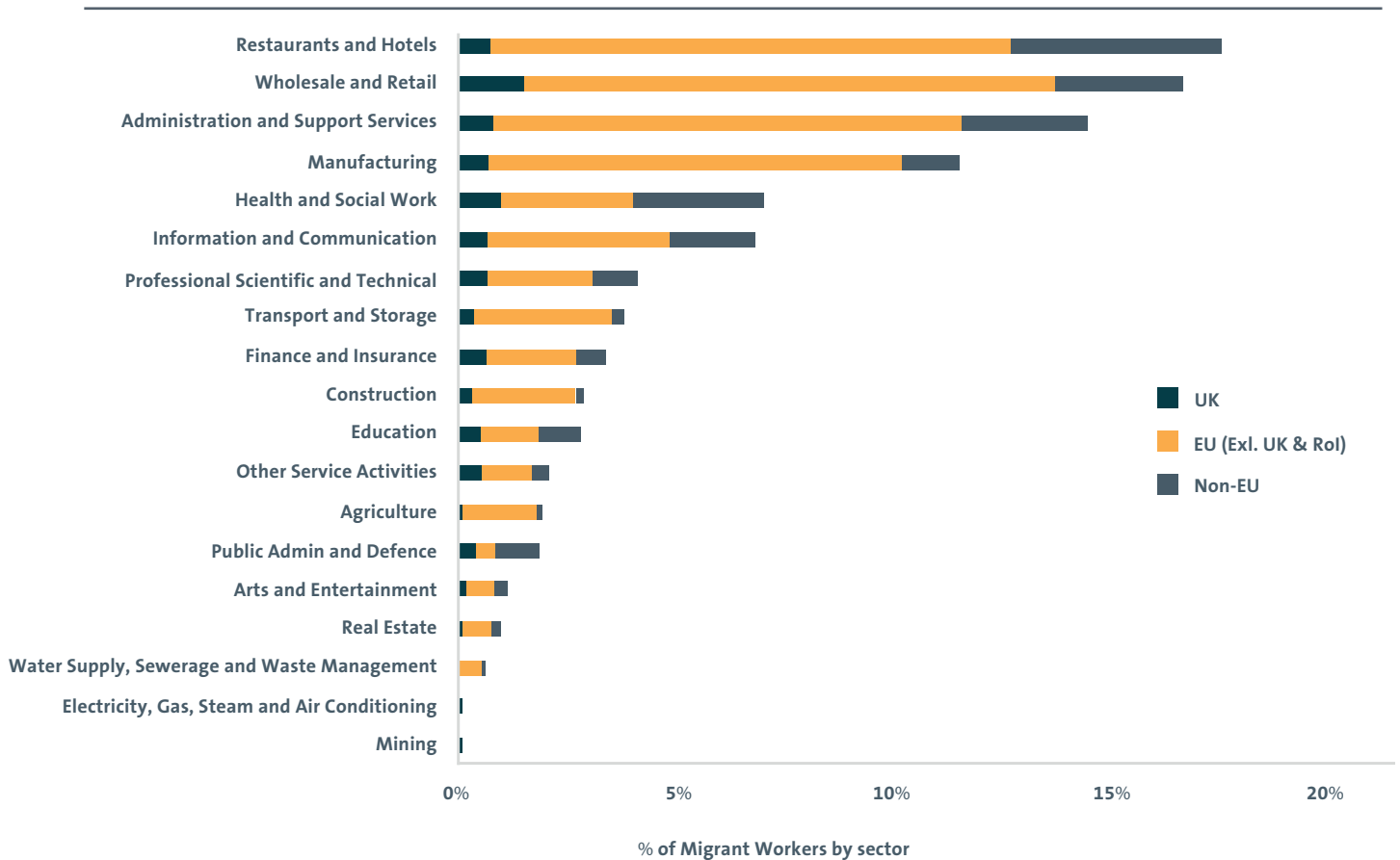


Source: Labour Force Survey. Note: Dark blue bubbles represent public sectors

In the Republic of Ireland since 2002 there has been over 1.6m applications for PPSN by foreign nationals. Only 15% of the total applicants are UK nationals, the rest being made up of other EU and non-EU nationals. In the border counties as many as 250,000 PPSN applications were filed by non-Irish residents between 2002 and 2015, 12% of the allocations being to UK-born citizens. This number is equivalent to 18% of the Southern Border Counties' total population. As in NI,

some sectors in the Republic of Ireland are more reliant on migrant workers than others. They are, however, quite different sectors. Figure 22 shows that the Restaurants and Hotels and the Wholesale and Retail Sectors are most reliant on migrant workers, with as much as 18% of the workforce being from outside the Republic of Ireland. With regard to UK nationals only in healthcare and retail are more than 1% of the sector's employees from the UK.

Figure 22: Foreign nationals employed by sector in Republic of Ireland, 2015



Source: CSO

Movement across the border

There has been considerable debate surrounding the numbers of people that currently travel across the border in either direction on a daily basis. A report by NISRA and the CSO based on the 2011 Censuses suggests that a total of 14,800 people travel daily between the two jurisdictions for work or study. According the Census returns, 6,500 travel from Northern Ireland to the Republic of Ireland and 8,300 travel in the opposite direction. In contrast, two reports, from 2009 and 2010 use surveys of employers on both sides of the border to estimate the number of their staff who cross the border to their workplace. The 2009 report, for the European Commission on cross-border mobility across Europe, found that 17,000 commuted cross-border to work in the Republic of Ireland and 12,000 to do the same in NI. A

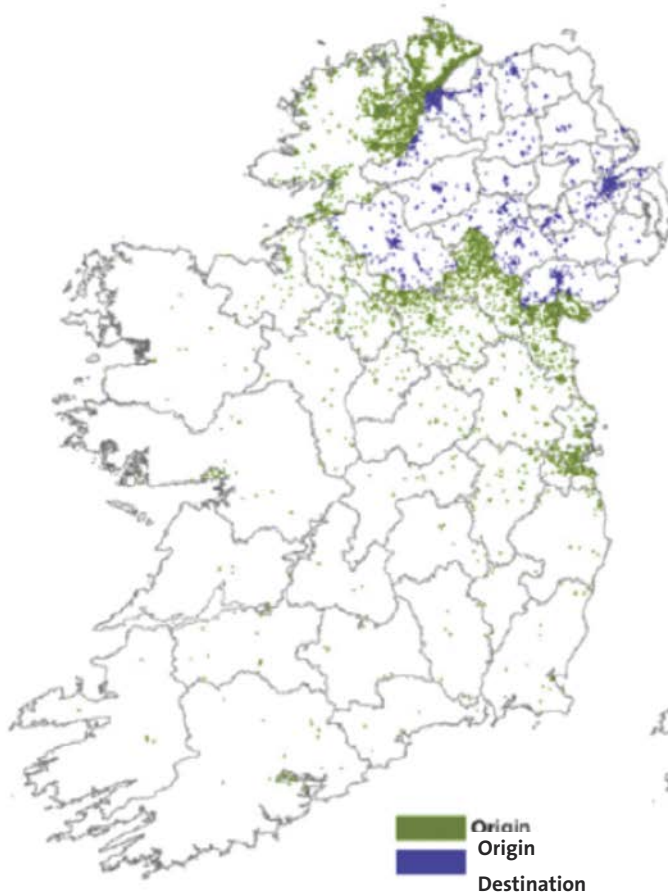
2010 report by the Centre for Cross Border Studies found similar numbers, of between 23,000 and 30,000 in total.⁵⁵

Figure 23 illustrates the origin and the destination of commuters from both Northern Ireland and the Republic of Ireland. An interesting trend appears, **with the majority of those commuting from Northern Ireland to the Republic located along the Belfast-Dublin corridor, while the majority of those that commute in the opposite direction live in the North-West region.**

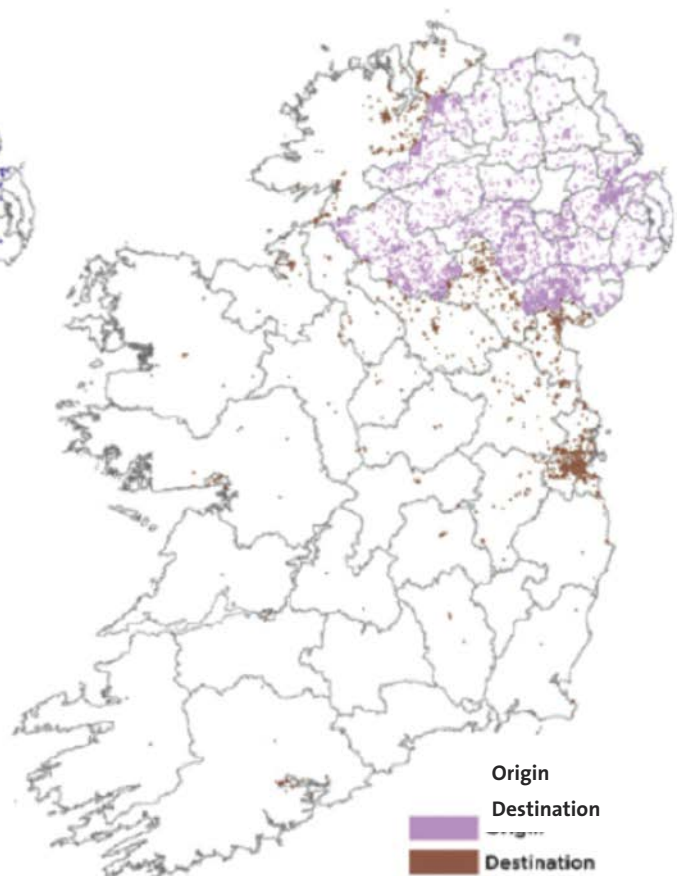
CSO Census 2016 (Sept. 2017) results for cross border commuting from ROI to NI confirm this pattern with 61% of all ROI to NI cross border workers and students travelling to Derry/Tyrone.

Figure 23: Cross border commuting flows, 2011

Cross-border commuters from Ireland to work or study in Northern Ireland



Cross-border commuters from Northern Ireland to work or study in Ireland



Data for 2015, shown in Table 4 and using ten Department of Infrastructure traffic counters from locations on or near the border, suggests that there are **94,480 daily border crossings**.⁵⁶ Corresponding traffic flow data collected from the Transport Infrastructure for Ireland suggests a similar number of daily, estimated at an average of 93,300 in 2016.⁵⁷ By way of comparison, the Westlink in Belfast had

95,810 vehicles using it daily in 2015, similar to the volumes crossing the border at the ten counters where data is collected. It is important to note that 3 of the 10 counters in Derry/Strabane/Donegal border account for 58% of all traffic evidencing the connected nature of the Derry Donegal North West City Region while the largest volume of traffic is on the Dublin/Newry crossing at 23% of the total.

Table 4: Annual Average Daily Traffic flows (AADT), Northern Ireland Border Roads, 2015

	AADT 2015	% of total
A1 Dublin Rd, Newry	21,960	23%
Cullyhanna - A29 Jntn	860	1%
Monaghan Rd, Middletown	3,770	4%
Buncrana Rd, Bridgend	19,600	21%
Culmore Road, Heathfield, Derry	17,550	19%
Strabane Lifford at Bridge	17,030	18%
Derrylin/Aghalane Rd at Bridge	3,560	4%
Aughnacloy – Emyvale N2/A5 Road	5,721	4%
Clones Road, B533	4,400	5%
Pettigo Rd, Kesh	2,370	3%
Total	94,480	100%

Source: Department of Finance, Monthly Economic Bulletin April 2017

With regard to freight movements the Transport Infrastructure for Ireland data provides an estimate of approximately 6,500 HGVs (7% of all vehicles) crossing the border daily. **The routes with the highest shares of vehicles being HGVs are the N2 between the border and Emyvale, Co. Monaghan (12%) and the N52 between Butlers Bridge, Co. Fermanagh, and Clones, Co. Monaghan (11%). One possible explanation of these higher shares is the transport of agri-food produce, quarry products or engineering goods from the mid-border region.**

Issues and Actions to consider by Border Corridor Local Authorities

- Maintaining the Common Travel Area is a priority for both the British and Irish government in order to facilitate the flow of people to work, study or use services across the border as well as between the two islands. Given the intensity of these movements in the border corridor, a focus on the continuation of the CTA will be critical.
- The ageing population and the importance of skilled employees for the businesses, healthcare and educational institutions in the border region mean that policies which support movement of people will not only be essential for the continued growth of some sectors but also for the population vitality of the Local Authority areas.

4.5 EU Funding: Establishing the case for continued and new funds.

€3.5bn is allocated to Northern Ireland programmes from the European Union from 2014-2020. Over 70% of this will go on CAP payments showing the importance of that fund.

Northern Ireland Local Authority areas benefit from EU money allocated by Northern Ireland Government departments on a regional basis (eg £238m in CAP and Rural Development funding in 2015 alone). However Border Local Authorities have benefited significantly from the two Programmes with a cross border element, PEACE and INTERREG. The current PEACE IV and INTERREG VA Programmes will make €469m available until 2020.

PEACE Programme

The European Union cross border PEACE Programme for Peace and Reconciliation in Northern Ireland and the Border Region of Ireland, is a unique Structural fund aimed at reinforcing progress towards a peaceful and stable society and promoting reconciliation. From its introduction in 1995 until 2020 this fund is worth €2,265m which symbolises the other EU member states commitment to the Ireland/ Northern Ireland Peace Process. This funding is not available in any other part of Europe.

PEACE Funding enabled the Border Local Authorities to develop Local Peace and Reconciliation Action Plans. Partnerships were established comprising the public, private and community sectors. They developed and implemented Action Plans to address sectarianism, racism, conflict resolution, mediation and reconciliation at local level.

INTERREG Programme

The European Union cross border INTERREG Programme was first introduced in 1991 and was devised as the European Community's response to the implications of the single market. It recognised the relatively disadvantaged situation of Border Regions throughout the European Community and proposed a method of support. The Ireland/ Northern Ireland border region was no exception. From 1991 to 2020 this fund is worth €1,134m.

Since its inception Border Local Authorities capitalised on the drawdown of INTERREG funding, often under the auspices of the Local Authority led Cross Border groups, East Border Region, Irish Central Border Area Network and North West Region Cross Border Group.

In recent years individual Local Authorities have taken the Lead in a wide range of INTERREG funded projects which have promoted cross border economic development across the border region.

From the outset, European Union funding has contributed significantly to the development and modernisation of the Border Corridor. This funding has impacted positively across many sectors including, Infrastructure, Economy, Environment, Health, Education, Tourism, Energy, Telecommunications, Community/Voluntary, Rural Development and Social Inclusion.

Both the PEACE and INTERREG Programmes have been significant drivers for cross border cooperation not just between Local Authorities but other key stakeholders across the region.

Issues and Actions to consider by Border Corridor Local Authorities

- A priority must be dealing with uncertainty over the continuation of current funding programmes after Brexit – Chancellor Hammond's August 2016 statement presents a first step as does the recent UK government proposal on the continuation of Peace funding, but questions remain over the longer-term future of other EU funding.
- Need to discuss and decide what the long-term goals should be for both cross-border funding programmes and those targeted at reconciliation. Should these continue on the existing tripartite basis (EU/UK/Ireland)?
- Need to seek and support any opportunities for a non EU member state to access EU schemes post Brexit
- Local Authorities should examine in conjunction with relevant agencies the options for Border Corridor funding post Brexit.

4.6 Tourism: Crucial sector with more to be achieved

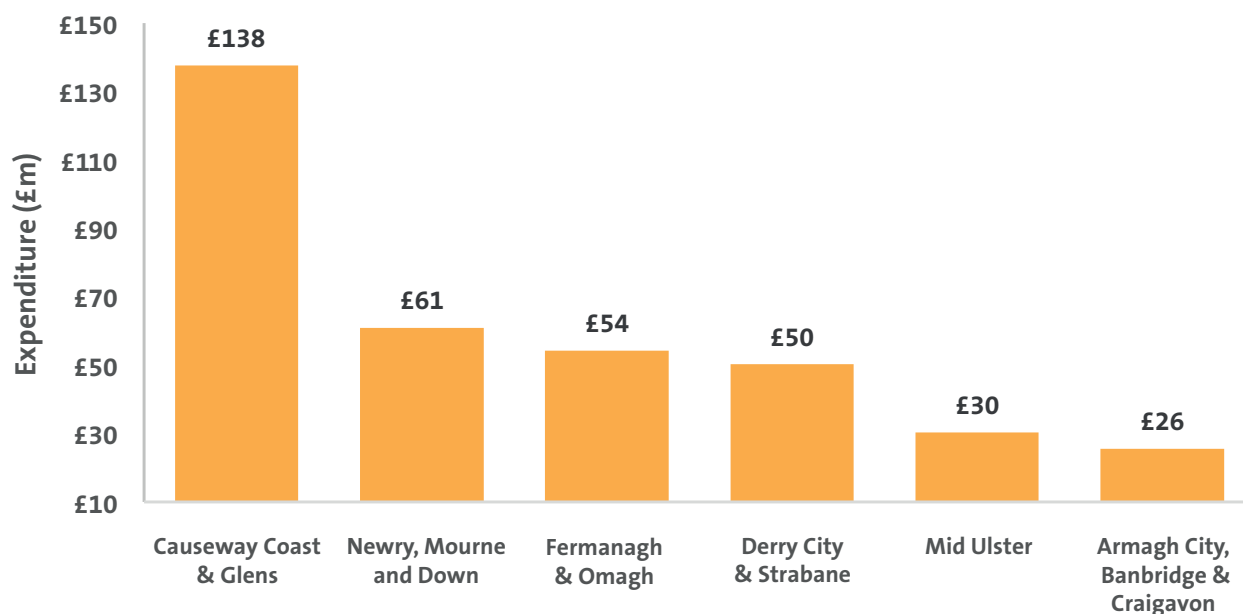
The tourism industry in the NI border region has become an increasingly important one. It made up approximately 8% of total employment in 2015 in the Local Authority areas, with nearly a quarter of all staff Non-EU citizens.

Tourism is now similar in size to the Construction industry (8.5% of total) in terms of share of employment in the NI border area.

Tourism expenditure in 2016 for the NI border Local Authority areas was £359m, around 42% of the NI total and up from £329m the previous year. More than 38% of the £359m was spent in Causeway Coast & Glens and another 17% in Newry, Mourne and Down.

Indeed, Causeway Coast & Glens is the star performer with 14% of total visitors to attractions within NI going there, no doubt to the Giant's Causeway, Carrick-a-Rede and the area's golf courses. The fall in the value of Sterling, alongside strong promotion of the areas, are the likeliest explanations of increased tourism in the Local Authority areas, although the devaluation should not be relied upon in the long term.

Figure 24: Tourism Expenditure by NI Border Local Authorities, 2016

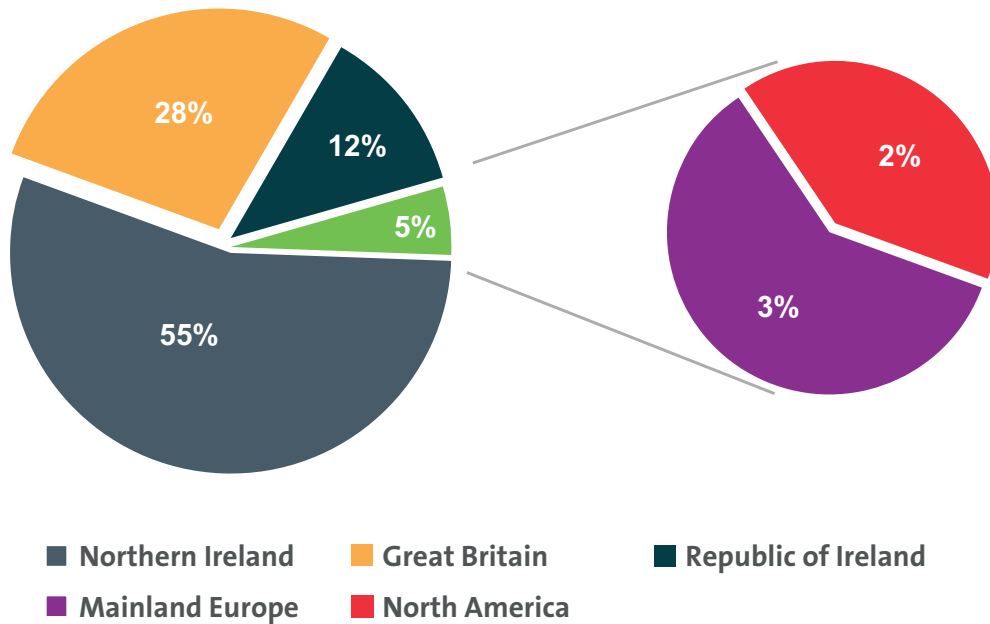


Source: NISRA

However, while Figure 24 shows promise for tourism in the border Local Authority areas of NI and a 9% growth in expenditure in 2016 from 2015, there is still an over reliance on 'home market' visitors from the rest of NI/UK. Figure 25 shows that these visitors make up a total of 79% of the visitors to the area,

compared to 69% of Belfast's total visitors. The NI border Local Authority areas attract only 5% of their total visitors from the wider EU, while Belfast attracts around 12%, showing that the EU market remains an underdeveloped one, in regard to tourism opportunities.

Figure 25: Origin of Visitors to NI Border Local Authority areas, 2015

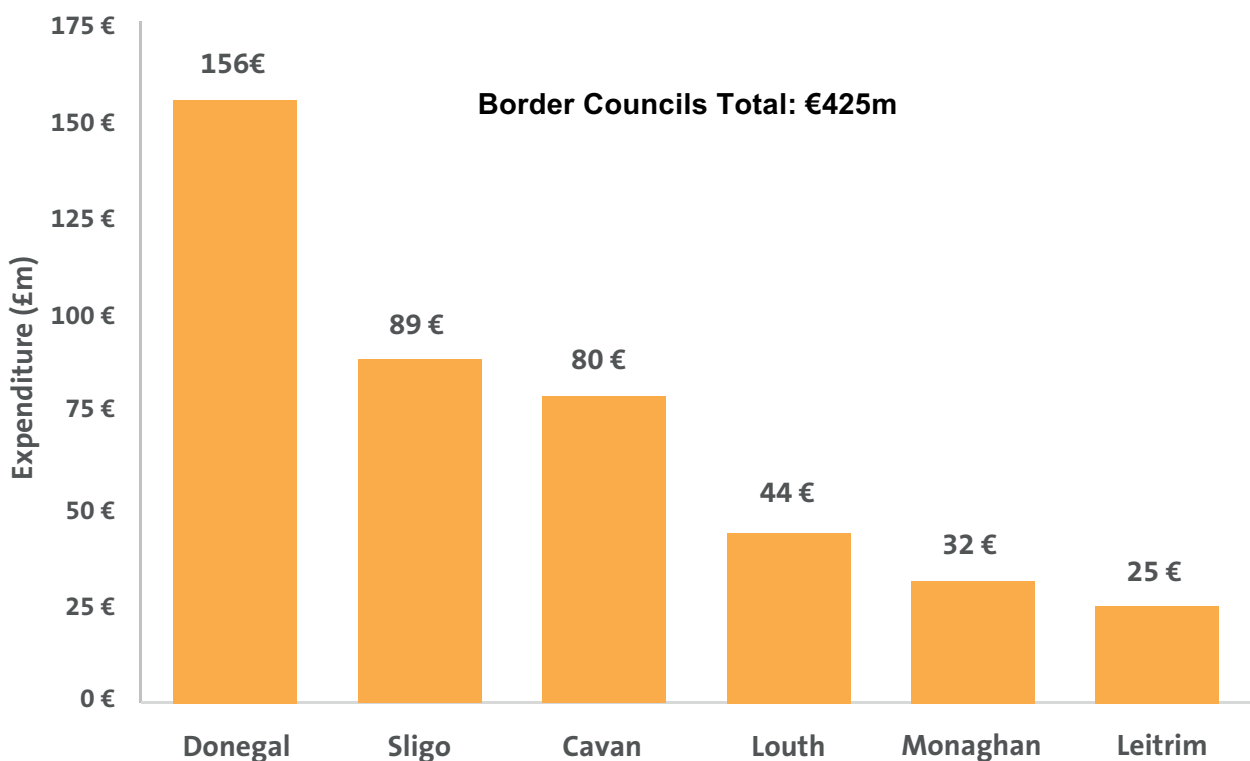


Source: NISRA

Tourism is equally important for the border Local Authority areas in the Republic of Ireland with employment being 10% of their total (2 p.p. higher than NI border Local Authority areas). Expenditure in 2015 was €425.8m, as seen in Figure 26, around twice

the amount spent in the NI border Local Authority areas. In addition, the border Local Authority areas in the Republic of Ireland received around 1.8m visitors in 2015, 400,000 more than the equivalent Local Authority areas in NI in the same year.

Figure 26: Tourism Expenditure by Rol Border Local Authority area, 2015

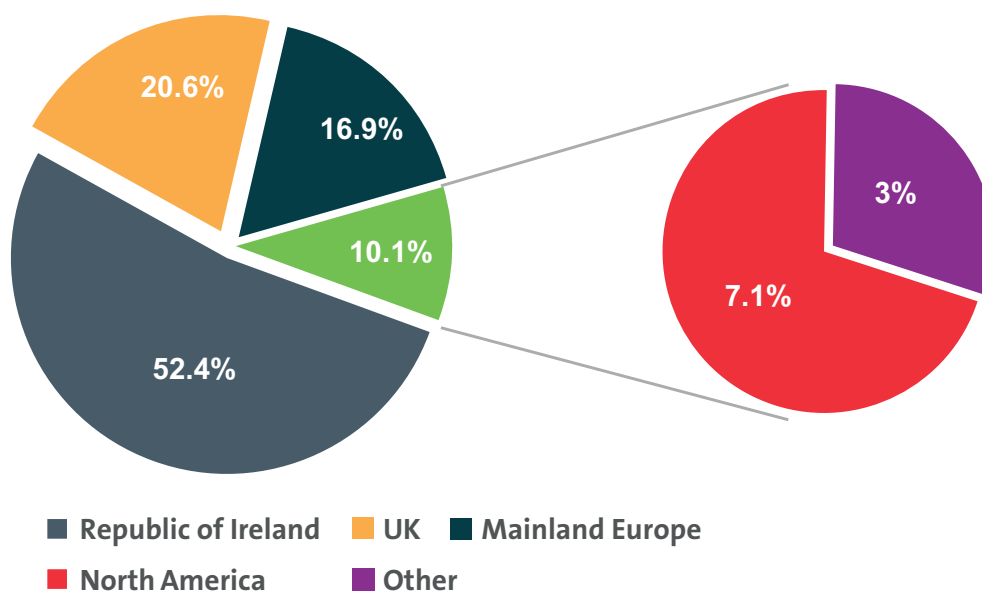


Source: Bord Fáilte

Unlike the NI border Local Authorities the Republic of Ireland border counties are less reliant on the UK for tourism. However, they are still heavily reliant on 'home' visitors with 52% of total visits in 2015 coming from within the Republic of Ireland. This tourism is often due to visits to family and/or friends. A widening of the tourist pool is the aim, especially given that

Donegal has three of the most recommended tourist attractions in the Republic of Ireland (Glenveagh, Sliabh Liag cliffs and Malin Head). Mainland Europe is becoming a key market for visitors, similar to the NI border Local Authority areas, as it currently accounts for 17% of total visitors.

Figure 27: Origin of Visitors to Rol Border Local Authority areas, 2015



Source: Bord Fáilte

In general the figures for both the NI border Local Authority areas and the Republic of Ireland border counties reflect a feeling of a strong sector with potential to grow the industry further. Indeed, for many of the Community Plans and Local Economic Development Plans, there is an ambition to make tourism a sectoral leader/driver for the Local Authority area.

Issues and Actions to consider by Border Corridor Local Authorities

- Recent NI tourism expenditure data for 2016 shows a marked increase from 2015 (+16%), partly helped by the depreciation in Sterling following the Brexit vote. However, it should be noted that this advantage may be short-lived and risks to tourism numbers from any future appreciation of Sterling need to be guarded against.
- One market that could be further exploited, even without the effect of Brexit, is mainland Europe. The figures show that the border corridor relies heavily on visitors from the Republic of Ireland and the wider UK. Building further cooperation between Local Authorities on a cross-border basis, in tandem with efforts by Tourism Ireland to attract European visitors to the island of Ireland, should be deepened further.
- There is a need to further exploit linkages between the tourist attractions (the closeness of Donegal and Causeway Coast being an obvious example) and combined packaging of successful events (e.g. festivals, sports events, etc).
- A key issue for the tourism industry in the border corridor is the relative free movement of people across the border which exists currently. Given that many tourists use the ports and airports (Dublin and Belfast) for entry to the region, the maintenance of the Common Travel Area and flexibility of visitor visas is essential to ensure the sector's current progress.
- The ongoing debate and potential outcome of the decision on Air Passenger Duty in Northern Ireland could potentially affect tourism numbers given the importance of access to the area. So, a well-managed relationship with Dublin airport and the improvement of transport infrastructure could further mitigate any risks posed by Brexit.
- A Bilateral agreement with the EU 27 is essential in order to presser the Open Skies Agreement which the UK currently experiences as an EU member.

4.7 Conclusions: Border Management

...a ‘hard’ border is a real possibility, a ‘frictionless’ border is almost an oxymoron.⁵⁸

Management of the Irish border has never entirely reduced it to merely a line on the map but the disappearance of customs posts – there to manage the movement of goods – and security checkpoints have taken much of the friction from it.⁵⁹ One estimate is that 180 roads cross the border but that 35-40 of these roads wind back and forth ‘with the frontier lying in the middle and a crossing point every mile’.⁶⁰ The successful contributions of cross-border cooperation and interactions may also have eroded the ‘border in the mind’ in the recent past.⁶¹ **The importance of cross-border trade to small firms, the integration of the agri-food industry and other sectors – for example accountancy firms in the border region estimate that 30% of their staff and 50% of their clients straddle the border – and the frequency of movements of people, have all been partly assisted by the form of border management in recent years.**

One contribution to good border management has been the creation of a long tradition of cross-border cooperation across the region between business bodies, higher education institutions, those working in the health services and efforts by community and voluntary groups to facilitate cross-border reconciliation. An Irish government minister recently urged Local Authorities in the border region to strengthen their existing bilateral or multi-lateral cross-border arrangements.⁶² The new partnership arrangements in the Derry Donegal North West City Region have been highlighted as a step in the right direction for other Local Authorities to follow. This is similar to the Memorandum of Understanding

between Newry, Mourne and Down District Council and Louth County Council which was signed in 2011. The joint approach taken by the Local Authorities across the entire border corridor behind this research is a further step in this direction and will support them in engaging with local citizens and bringing their views to the negotiations process.

It has been suggested that the current absence of the NI Executive may be due, at least in part, to the political instability that Brexit is causing.⁶³ When it is re-established the Executive, alongside the local authorities along the border corridor, should work to develop and propose creative solutions for future border management. Solving many of the issues raised above will depend how the impact of Brexit on the Irish border can be managed. This will particularly be the case where there are currently strong cross-border, British/Irish and UK/EU flows and interactions. For example, several consultations on logistics and supply chains for this report – carried out with hauliers, ports management, freight forwarders, retailers and current and former customs officials – reveal a complex web of engagements which the current border management have facilitated. The success of any future regime for the management of the Irish border will be judged not only on how well it answers the political and economic dilemmas caused to the border region by Brexit, but also how far it allows the current level of co-dependencies which exist across Council areas to continue unhindered.

5. Possible Outcomes: Employment Forecasts to 2026

This section details the UUEPC forecasts for employment growth in the Border Corridor out to 2026.

The forecasts are based upon the UUEPC's modelling of longer term outcomes for each of the Local Authority areas in the corridor. This local economic modelling and provision of local government forecasts has been developed by the Centre to assist in the devolution of some economic development powers within Northern Ireland. The report also uses the provisional UUEPC forecasts from its preliminary Irish model to outline some forecasts for the six Southern

Border Counties. By providing Local Authorities in NI with a range of economic data (on demographics, labour market, GVA and employment by sector, etc), the UUEPC aims to assist in the identification of the best economic policies for local places and needs, as well as developing the capacity to test out the outcomes and indicators for the new Community Planning processes.

5.1 Baseline and Lower Scenarios

The forecasts are based on the baseline and lower (or worst case) scenarios from the UUEPC's summer 2017 outlook, released in July 2017.⁶⁴ Both scenarios assume that Brexit will occur, the difference between the two scenarios being a varying degree of the severity of its impact. The baseline scenario further assumes that future trends will be largely based upon the current economic environment, for example stable consumer spending. This scenario is underpinned by assumptions that the UK economy, as result of Brexit, will experience a slowing of business investment, falling levels of FDI in coming years and inward migration capped at 185,000 per annum. **The baseline scenario sees Northern Ireland showing little convergence in growth to the UK average, and adding an additional 28,800 jobs by 2026.**

The **second scenario**, known as the lower scenario, assumes a damaging and poorly coordinated Brexit. This scenario assumes that the negotiated deal between the UK and the EU member states will be a

'hard' Brexit, with the UK exiting the Single Market and the EU Customs Union. In addition, unlike the baseline scenario, the lower scenario also assumes that consumer confidence will fall and that, in particular in Northern Ireland, squeezed incomes will cause a consumer spending slowdown. **In this scenario the UUEPC forecast that Northern Ireland will fall further behind the UK average and lose 8,100 jobs by 2026.**

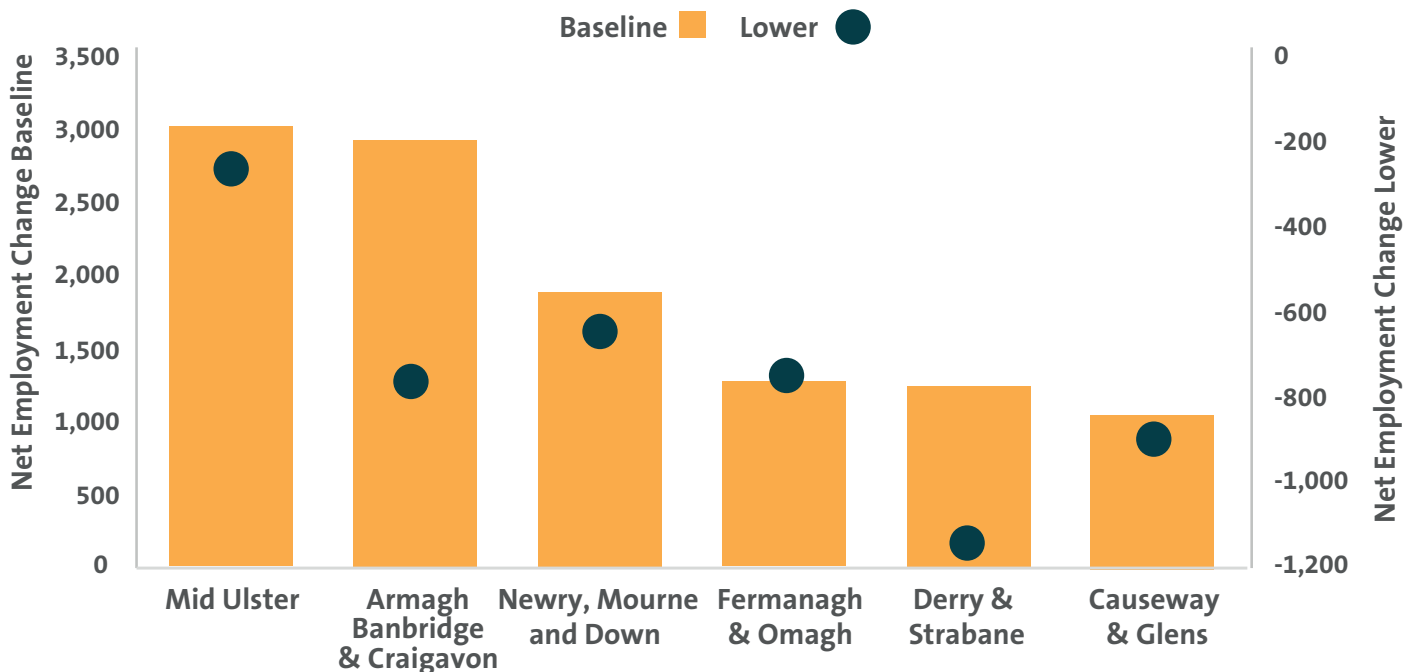
The UUEPC's outlook refers to a 'wider range of outcomes' and high levels of uncertainty, given the political shocks from 2016 highlighted by the result of the recent UK general election. In addition, the greatest level of uncertainty exists around not only the shape of the UK's exit from the EU but also the nature, good or bad, of future trading arrangements with other international partners. The highly integrated nature of the Irish economy with the UK ensures that these levels of uncertainty around economic futures exist right across the island.

5.2 Northern Ireland Border Local Authorities

Figure 28 shows the expected change in employment in both the baseline and lower scenarios to 2026 for each of the Local Authority areas located along the border in Northern Ireland. In the baseline scenario the Local Authority areas are expected to gain a combined total of 11,500 jobs, which would make up 40% of the total net employment change in Northern Ireland. **However, in the lower scenario the border Local Authorities could expect to lose 4,400 jobs by 2026 around 55% of the total loss in employment change to Northern Ireland.** The relative gains and losses are indicative of the concentration of the potential impact of Brexit in this area.

The growth in employment, on the baseline scenario, in the combined Local Authority areas would mark a percentage change of 3%. **The highest percentage changes come in the big job gainers – Mid Ulster (4.7%) and Armagh City, Banbridge & Craigavon (3.4%) – while Causeway Coast (2.1%), Derry City & Strabane (2%) and Fermanagh & Omagh (2.5%) are all well below the average growth.** In the lower scenario every Local Authority area is expected to lose jobs, a combined percentage change of -1.9%. A similar pattern by Local Authority area repeats itself – in terms of the extent of jobs losses – **with over one quarter of the job losses within NI attributed to Brexit will be within the Derry Strabane Council area highlighting the magnitude of the challenge facing the Derry Donegal North West City Region.**

Figure 28: Northern Ireland Border Local Authority Baseline & Lower Employment Forecasts to 2026



Source: Provisional UUEPC analysis

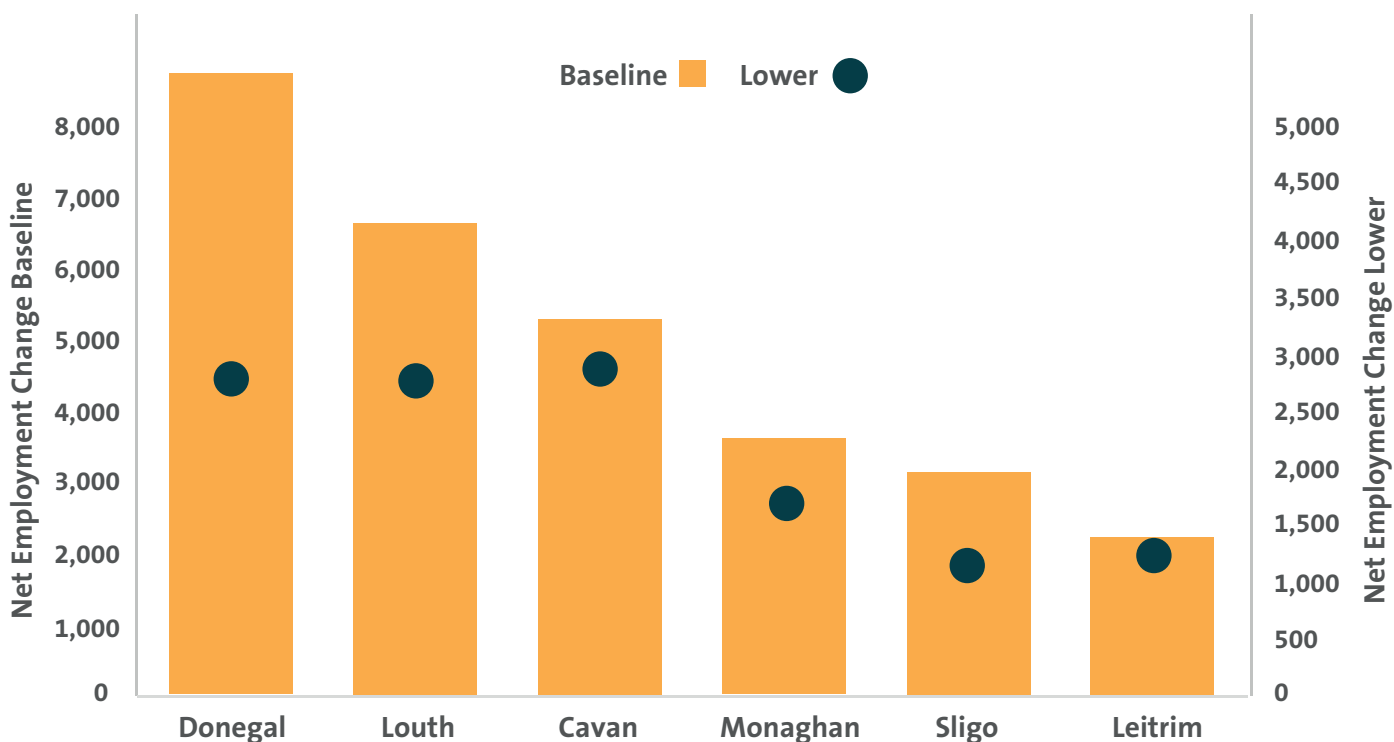
5.3 County Council areas in the Southern Border Corridor

Figure 29 shows the expected change in employment numbers in the Local Authority areas of the Southern Border Counties when the baseline and lower scenarios are applied to 2026. This has been done by the UUEPC modelling the potential impacts of Brexit on the Irish economy, in areas such as trade, in order to gauge baseline and lower scenarios. The estimates are based on a range of independent forecasts for the Republic of Ireland and using the sectoral composition of employment in the 2011 Census and current trends in order to create profiles for the State, Regions and Counties. These estimates are very experimental and are under constant review. Again, the picture is one of a region particularly exposed to Brexit, especially a mismanaged one.

In the baseline scenario depicted in Figure 30 the border Local Authorities are expected to generate an

additional 27,900 jobs by 2026, around 10% of the overall employment change expected for the whole of the Republic of Ireland. This is the equivalent of a percentage change of 13.5%, slightly behind the 14.1% employment growth for the Republic of Ireland as a whole. **Some of the highest percentage changes are likely to be found in the smallest counties – Leitrim (16.9%), Cavan (17.1%) and Monaghan (14%) – while those in the North West – Sligo (11.4%) and Donegal (11.4%) – are expected to grow but not as much as elsewhere.** In the lower scenario the Local Authority areas gain around 12,400 jobs by 2026, a percentage change of 6.2%, less than half the level for the Republic of Ireland generally (13.6%). As Figure 29 shows each individual Local Authority area will add on jobs, even under a ‘hard’ Brexit, but at much lower levels in some places – Donegal (4.6%), Sligo (4.3%) and Louth (5.8%) – than nationally.

Figure 29: Republic of Ireland Counties Baseline & Lower Employment Forecasts to 2026



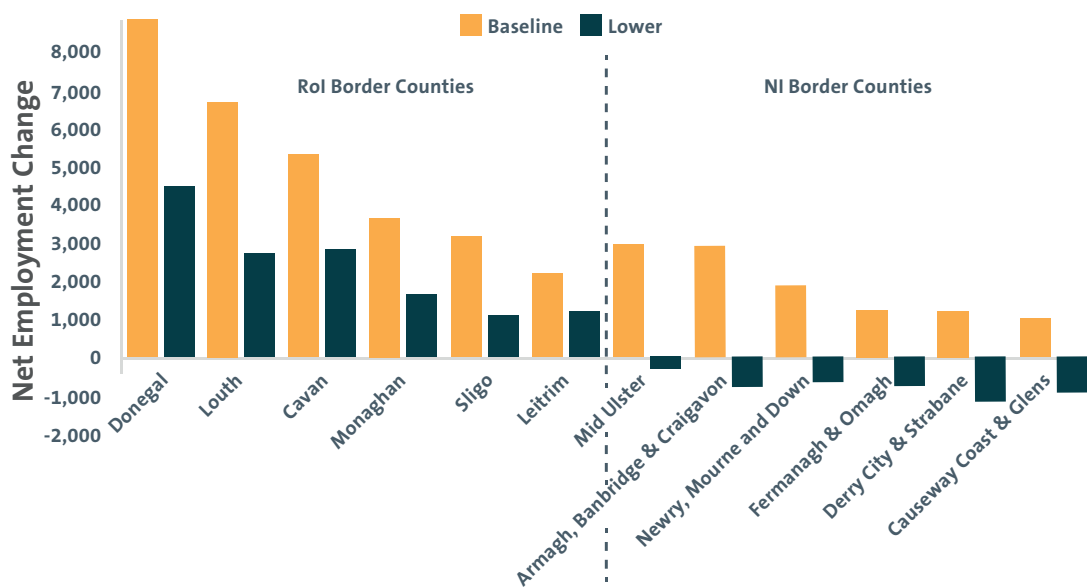
Source: Provisional UUEPC analysis

5.4 Comparisons across the Border Corridor

When making comparisons across the Border Corridor, as can be seen in Figure 30, the stronger economic performance can be found – in both scenarios – in the Southern Border Counties. This reflects the relative

short and medium term economic forecasts for Northern Ireland and the Republic of Ireland, where the latter is expected to grow perhaps more than twice as fast as the former, even under Brexit.

Figure 30: Republic of Ireland Counties Baseline & Lower Employment Forecasts to 2026



Source: Provisional UUEPC analysis

5.5 Conclusions

As noted in the title to this section these forecasts present the possible outcomes for overall changes in employment in the Border Corridor over the next decade. Given that the forecasts include possible impacts of Brexit they are hedged with uncertainty as it is not yet possible to know the final shape of the UK exit, how this will be managed by all involved and what arrangements will then be put into place. However, the forecasts do provide some clear patterns for policy makers when thinking about potential futures for the Border Corridor:

- The rate of employment growth in both parts of the Corridor is likely to fall below the average percentage change in Northern Ireland and the Republic of Ireland.
- There are exceptions to this within some Local Authority areas in Northern Ireland – for example Mid Ulster and Armagh City, Banbridge & Craigavon

– and in some smaller counties south of the border – Leitrim and Cavan.

- The lower scenario, while still showing positive growth in the Southern Border Counties, will produce growth there well behind the national average. The same gap exists in Northern Ireland, where all Local Authority areas will lose jobs under this scenario, but is not as large.

This suggests that the outcomes do not herald a convergence for the Border Corridor with the other parts of either the Republic of Ireland or Northern Ireland, in terms of employment growth. **Thus, measures for mitigating the impact of Brexit, either in terms of sectoral exposures, trade impacts or infrastructural deficits, will be particularly important to this region if it is not to fall further behind.**

6. Final Thoughts and Conclusions

There is a high level of agreement between the European Commission (and Council of Ministers), the UK Government and the Irish Government on what will form the programme of work around the Irish border in the Brexit negotiations.

These can be summarised as the following:

- Ensuring that nothing is done to undermine the goals of peace and reconciliation contained in the Good Friday/Belfast Agreement.
- Maintaining the Common Travel Area [CTA] between the UK and Ireland (in conformity with EU rules).
- Avoiding a return to a hard border – stress laid on need to be flexible and imaginative in devising solutions.

Of course for the UK to leave the EU Customs Union, introduce a new system of controls around movement of people, and hope for a ‘frictionless’ Irish border will require more than technological solutions. Political imagination, flexibility and will are all going to be needed to develop a new form of border management that is not ‘hard’.

Consultations for this report have identified the avoidance of an economic border (on the transit of goods in particular) and the protection of the Good Friday/Belfast Agreement (especially around aspects of peace and reconciliation, and citizenship rights) as the key ‘asks’ for the Border Corridor in any Brexit talks. The UK Government’s proposals for Ireland/NI

contain plenty of ideas on EU funding, customs arrangements and regulations in the agri-food sector, which may contribute to any future management of the Irish border. However, it remains to be seen whether the proposals in the UK Government paper are regarded as putting a ‘Trojan Horse’ into the negotiations or something that will form the basis of future solutions.

There are many cautionary tales which warn against complacency and sticking to the old routine ways of thinking in the face of shocks and changes. This warning is relevant now when grappling with the dilemmas and challenges raised by Brexit. Mitigating risks and/or taking opportunities will, by necessity, mean defending some of what is currently in place (eg funding streams). However, it may mean that how some things are done will also have to change. The Border Corridor, with its peripheral position on the island, already lags behind other regions so breaking with past patterns is necessary. New policy thinking, new methods of cooperation and partnership – between Local Authorities and with central Governments – will be essential for border management to work in the wake of Brexit.

6.1 Conclusions

Despite the fact that the Irish Border Corridor has received significant amounts of EU and other funding since the 1990s, it continues to lag behind national or regional averages in areas such as productivity and household incomes.

Forecasts for employment growth in the region out to 2026 mean that this outcome is likely, at best, to continue for the Corridor all things remaining equal. Given the current levels of cross-border co-dependency across the Local Authority areas, a poorly managed Brexit could mean economic outcomes where the region falls further behind. Thus the need not only for measures to mitigate against any negative impacts of Brexit, but also for the creation of solutions that ensure that future border management is actually as seamless as possible.

Mitigation

The Community Plans and Local Economic Development Plans across the Local Authority areas in the Border Corridor include a range of proposals and actions to address some of the structural weaknesses in the region and mitigate against any negative impacts of Brexit. Key actions in this regard might include:

- Investment in upgrading transport infrastructure such as the A6, A5, N4, N16 (Sligo/Enniskillen), Southern Relief Road (around Newry), the Enniskillen Bypass, N14 Letterkenny to Lifford, A2 – Bunrana Road (Derry-Letterkenny), from Emyvale to the M1/Dublin (ie the M2) Cross-border Economic Corridor. Continued access for Northern Ireland to TEN-T (Trans European Transport Network) funding will be important in this regard.
- The evidence shows that the impact of Brexit will fall disproportionately on the Border Region and within that on a number of sectors such as indigenous SMEs which are predominant along the Border corridor. As demonstrated GVA and GDP per capita within the Border Region is already significantly below the averages for both NI and ROI and thus there is a clear need for a Brexit transition assistance programme along the lines of a Territorial Co-operation programme to support these regions in adapting to the challenges and opportunities that the UK's exit from the EU will bring to this region.
- Investment in business support to ensure that many more small and medium-sized businesses are able to prepare for Brexit, including getting advice on tariffs and new customs arrangements if these come into place.

- Continuation of EU funding to ensure not only that peace and reconciliation projects funded by the Peace programme continue, but so too cross-border cooperation (through Interreg), research collaboration (in Horizon 2020 and successor programmes) and student mobility activities (Erasmus).

Recognition of the unique circumstances of the Border Corridor, with its distinctive cross-border flows, in the new Irish Government National Planning Framework would also provide the restart to regional policy identified as necessary for the Border Corridor by Bradley and Best in 2012.

Border Management

All of those consulted for this report referred to the need for the management of the Irish border to remain as close as possible to its current position given the practical issues and political sensitivities around it. In other words, the free movement of goods, services, people and investment should be the goal. The EU has certainly been flexible and imaginative when it has established arrangements for the management of other borders, though none of the examples cited (the former divided Germany, Cyprus or Croatia/Bosnia and Herzegovina) are exactly the same as that between a current member state and part of a former member state sharing the same island.

The simplest solutions suggested in the Border Corridor and elsewhere when it comes to future management of the Irish border are either that the UK remains a member of the Customs Union on a permanent basis or does so on a transitional basis until a new Free Trade Agreement is signed with the EU. In both cases there would be no new customs border with the imposition of tariffs and non-tariff barriers. If neither proves to be the case then a combination of two possible solutions may be necessary to prevent a 'hard' border returning to the region:

- The continuation of the current operation of the Common Travel Area in full, which would allow not only the daily cross-border commuting and access to services to continue unhindered, but also would uphold the rights of UK and Irish citizens, supported by the Good Friday / Belfast Agreement. Including other EU nationals (33% of the approximate 120,000 non-UK nationals in NI in 2011) under the CTA arrangements should also be explored to facilitate movement of people.
- The development of a new economic zone within which the free movement of goods and services would continue as now. The application of exemptions for trade by certain sizes of businesses and the introduction of quotas for certain sectors that are highly integrated (eg agri-food) are ideas that might form the basis of such a zone. The details – its geography, and whether it covers some or all sectors, some or all sizes of firms, goods and services locally traded or those part of internationally traded supply chains – are not worked out. Nor are questions about how it would be monitored and by whom. However, agreement around such an arrangement is likely to be essential for smooth border management.

Cooperation by the eleven Local Authorities across the Border Corridor initiated this report and facilitated the authors from the UUEPC to gather evidence and then share the results. This cooperation has ensured that voices, debates and suggestions from within the region are heard across the island. Continuing this cooperation and the conversations around risks and opportunities associated with Brexit will be essential in order to develop solutions to the issues raised in this report and then to successfully implement these for the better development of the region.

Notes

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- 2:** See the evidence of Professor Michael Dougan and Dr Stephanie Reynolds to the NI Affairs Committee, November 2016.
- 3:** Figures from the BBC website.
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- 12:** Simon Usherwood, ‘The EU position’, in UK and Europe, The EU Referendum: One Year On, 25 June 2017.
- 13:** Paul Krugman, ‘The macroeconomics of Brexit: Motivated reasoning?’, The Conscience of a Liberal blog, 30 June 2016, <http://krugman.blogs.nytimes.com/2016/06/30/the-macroeconomics-of-brexit-motivated-reasoning/?module=BlogPost-ReadMore&version=Blog%20Main&action=Click&contentCollection=Opinion&pgtype=Blogs®ion=Body#more-39827>. Most forecasters continued to say that the UK economy would not enter recession in 2016 with the average of the 21 forecasts received in September 2016 being 1.8%.
- 14:** Graham Gudgin, Ken Coutts & Neil Gibson, ‘The macro-economic impact of Brexit’, Centre for Business Research, University of Cambridge, WP 483 (November 2016).
- 15:** For a useful analysis of this debate see Diane Coyle, ‘What scented candles say to an economist’, New York Times Sunday Review, 7 Nov. 2015.
- 16:** Department of Finance, UK EU Exit: An exposure analysis of sectors of the Irish economy (October 2016).
- 17:** Bertelsman Stiftung / ifo, ‘Brexit: Potential economic consequences if the UK leaves the EU’, Policy Brief, 2015/05 (May 2015).
- 18:** See Alan Barrett et al, ‘Scoping the possible economic implications of Brexit on Ireland, research series no. 48 (2015); Adele Bergin et al, ‘Modelling the medium to long term potential macroeconomic impact of Brexit on Ireland’, WP No 548 (November 2016); Martina Lawless and Edgar Morgenroth, ‘Product and sector level impact of a Hard Brexit across the EU’, WP no. 550 (November 2016).
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- 22:** For the Assembly Committee paper by Dr Lesley Budd see <http://crossborder.ie/site2015/wp-content/uploads/2015/11/2015-03-22-brexit-ceti-specialist-advisor.pdf> (March 2015); the DETI report was Oxford Economics, ‘The economic implications of a UK exit from the EU for Northern Ireland: A briefing paper (February 2016).
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Notes

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- 33:** Calculations from InterTradelreland, Potential impact of WTO tariffs on cross-border trade (June 2017), Table 1.
- 34:** D. Mtko, P. George, T Stroyan and T. Maria, 'Cross-border Cooperation in Southeastern Europe: The Enterprises point of view', University of Thessaly, Department of Planning, Discussion Paper, 9:2 (2003).
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- 68:** The UK government paper referred to 80% of cross-border trade being by SMEs as 'examples of local trade in local markets'; ibid., p.17.



Armagh City
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District Council



Comhairle Contae
Dhún na nGall
Donegal County Council



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Fhear Manach agus na hÓmaí



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Acknowledgements

The authors would like to thank the attendees at a Local Government workshop in Cookstown, February 2017, and those who participated in a conference to discuss the initial research findings at the Lough Erne Resort, Enniskillen, May 2017. The respective Chief Executives of the Border Corridor Local Authority areas, Liam Hannaway, Marie Ward, and Jonathan McGilly of Newry, Mourne and Down District Council and Pamela Arthurs of East Border Region Ltd deserve particular thanks for their input. For additional assistance with data we would like to thank the relevant statisticians in Department for the Economy, Central Statistics Office and Department of Justice, Enterprise and Investment and likewise Aidan Gough of InterTradeIreland, for sharing the insights of research into tariffs and cross-border trade.



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