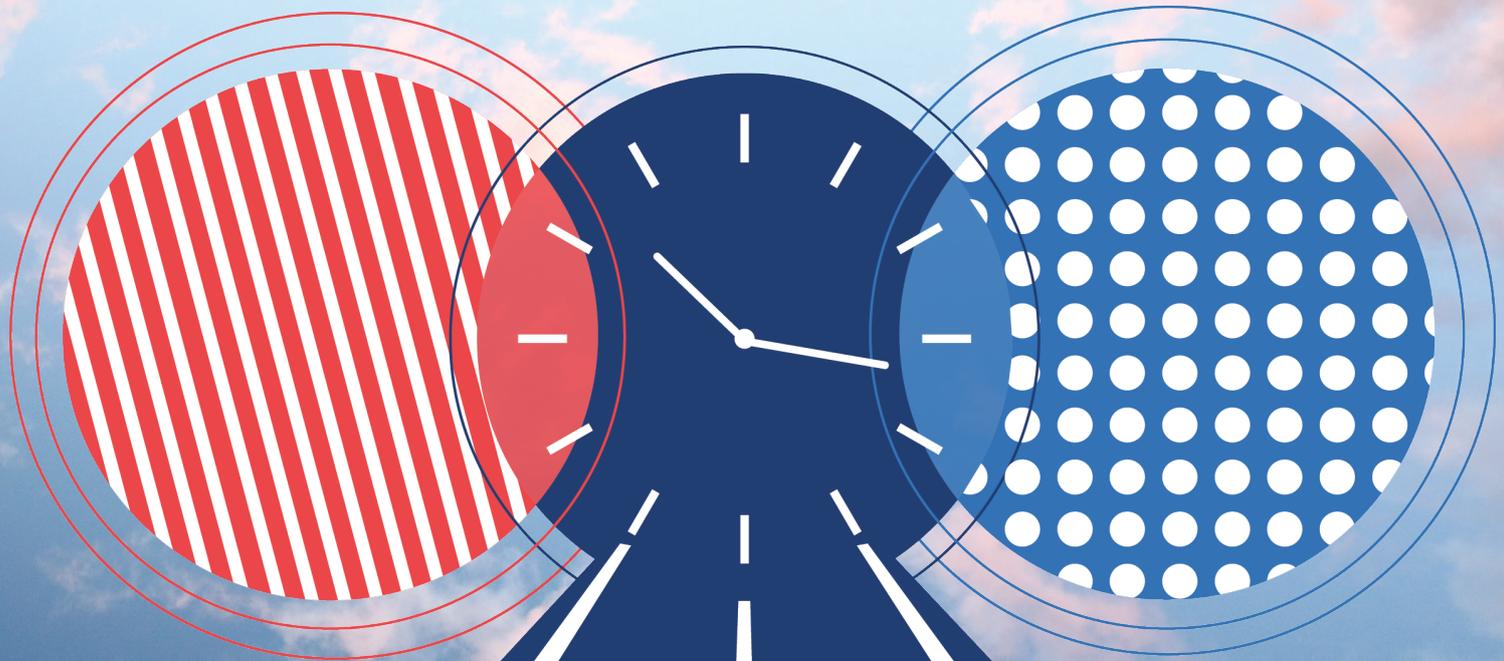


# EVENT REPORT AND BREXIT STATE OF PLAY

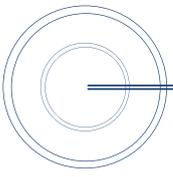


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## THE BREXIT ENDGAME

KEY CHALLENGES AHEAD - PERSPECTIVES  
FROM GERMANY, IRELAND AND SCOTLAND



# THE BREXIT ENDGAME: KEY CHALLENGES AHEAD

## PERSPECTIVES FROM GERMANY IRELAND AND SCOTLAND

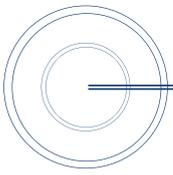
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*The views expressed in this report and event summary are those of the report authors and event speakers. They do not represent the views of the organisations involved in organising the event.*



# BREXIT: THE STATE OF PLAY

ANDREW GILMORE AND KIRSTY HUGHES

As the Brexit endgame follows an uncertain path to an unclear (as yet) end point, our timely joint event looked at the big challenges and questions ahead with high-level German, Irish and Scottish speakers contributing. In this overview, we look at some of the key themes and questions in this Brexit endgame as explored at our event on 5 October 2018 (with specific summaries of each session following this state of play overview).

Uncertainty remains one of the key big issues around Brexit. With the UK's date of departure less than four months away, and the approval of the UK parliament still needed for the Withdrawal Agreement, the dominant characteristic of the endgame is uncertainty.

The detail of the withdrawal agreement has, of course, now been pinned down, including the 'divorce' payment; rights of EU citizens in the UK and UK citizens elsewhere in the EU; a transition period until the end of December 2020, with possibility of extension until 2022; and, most politically contentious within the UK, the Northern Ireland backstop. The backstop was something of a diplomatic victory for Ireland, and was a key red line for the EU27 throughout the latter stages of the talks. Of course, it was also the source of the deadlock in the final months of the negotiations, with Prime Minister Theresa May clearly struggling to get whatever had been agreed at technical level, in the days and weeks before the summit, through her cabinet or past her backbenchers.

For our speakers from Germany, Ireland and Scotland, Brexit was not a desirable goal, better for the UK to have remained in the EU. But if Brexit had to happen, then an organised, negotiated and agreed Brexit was seen as clearly superior to the chaos of no deal.

Yet for some Scottish speakers (a view seen elsewhere in the UK too), any hard Brexit deal (or 'blind' Brexit deal if the political declaration on the future relationship was very vague and fudged) should, preferably, be opposed at Westminster – and for some Brexit should be opposed in all forms. Any rejection of a deal brought to Westminster, the European Council and European Parliament for ratification would surely lead to an intense political crisis in the UK. But it would also open up the possibilities of a general election (that might or not lead to a major change in negotiating stance perhaps towards a 'softer' Brexit) or of a so-called 'people's vote', i.e. a further referendum on whether to accept the deal or remain in the EU.

## THE BACKSTOP

The commitment to a backstop, in last December's Joint Report, set out three routes to ensuring the Irish border remained open and frictionless after Brexit. It also laid bare a stark contradiction in the UK's negotiating position: how to maintain a frictionless customs and

regulatory border between Ireland and Northern Ireland, while also pursuing an independent trade policy for the UK as a whole. This paradox was further underlined by a subsequent paragraph of the report, included at the DUP's insistence, that any arrangements for the border between Northern Ireland and Ireland would not create barriers to Northern Ireland's trade with the rest of Great Britain.

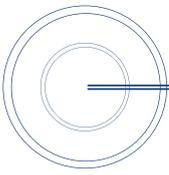
Theresa May set out her 'red lines' on Brexit very early on – including leaving the EU's single market and customs union, not remaining under the legal jurisdiction of the Court of Justice of the EU, nor retaining free movement of people. These red lines made it very difficult to see how the future UK-EU relationship could ensure that the Irish border remained open. Hence, the steady emphasis on the need for a permanent, feasible backstop from the EU side.

In addition to all of this, Prime Minister May found herself with a government divided into warring factions, both within the cabinet and across the backbenches, and needing the votes of the DUP's MPs to sustain her majority. Inevitably, then, the UK government struggled for months with the conundrum of reconciling these contradictory positions. Due to its own domestic political divisions, it struggled to propose a backstop that it could even agree to itself, let alone that would be acceptable to Ireland and the rest of the EU.

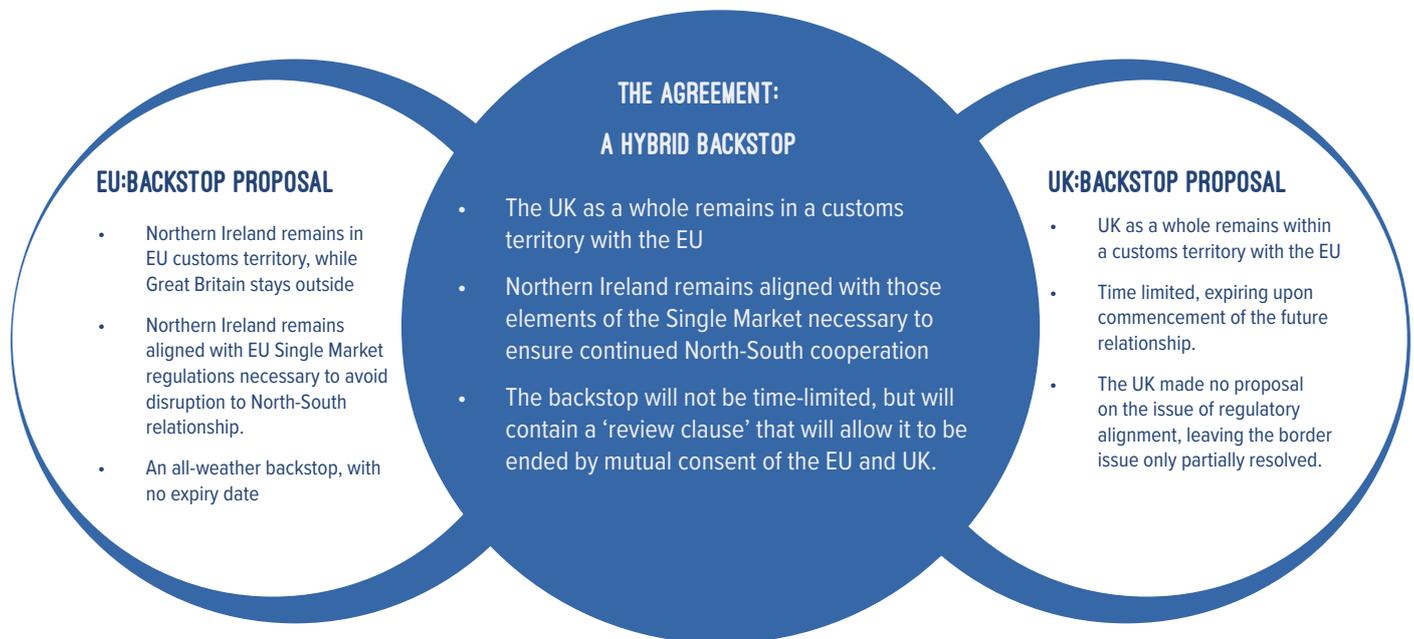
The UK's proposals for a temporary customs agreement as the basis or partial basis for a backstop, was rejected by the EU – as, broadly, were her later Chequers proposals and white paper focused on staying in, effectively, the single market for goods. Yet by early autumn, discussions were under way as to whether there could be a 'backstop to the backstop' of some kind or other. Ultimately a solution was found, and on the night of 14 November 2018, the EU published the draft Agreement on the Withdrawal of the United Kingdom from the European Union. The text contained agreement on virtually all of the outstanding issues for the negotiations, including the Northern Ireland backstop. The deal also crossed many of the Prime Minister's stated red lines, and prompted a string of resignations from within her party, including the Brexit Secretary, Dominic Raab.

## A HYBRID BACKSTOP

The agreed solution of 14 November essentially amounts to a hybrid of the EU and UK proposals, with the UK as a whole remaining in a single customs territory with the EU, and Northern Ireland specifically remaining aligned with Single Market regulations across a broad swathe of areas. Notably, the UK would also accept the CJEU as the ultimate arbiter with respect to all laws *within the scope of the backstop*. Furthermore, there is no time limit on the agreed backstop, as the UK had previously insisted upon. However the EU made a partial concession to the UK's position in allowing for a **review**



**mechanism.** This review mechanism would allow the backstop to be cancelled, in whole or in part, by mutual consent at an undetermined point in the future, as long as – and if – the future relationship succeeds in achieving the same objectives of the backstop – namely to maintain the necessary conditions for continued North-South cooperation, avoid a hard border and protect the Good Friday Agreement in all its dimensions.



While the proposal of a UK-wide customs union and NI specific regulatory alignment would solve the issue of the border it also inevitably throws up some issues for trade between Northern Ireland and Great Britain – a soft 'sea border' arising from regulatory differences between Northern Ireland – following EU single market rules for goods and agriculture – and the rest of the UK. However, these barriers should not be overstated – indeed there are already regulatory differences between Northern Ireland and Great Britain. Moreover, UK ministers have said they would keep British laws aligned with those in Northern Ireland (though such a unilateral move will not remove all EU regulatory checks).

The EU, at the September 2018 Salzburg Summit, attempted to 'de-dramatise' the backstop issue by putting forward proposals that would minimise the level of checks and inspections that would be necessary at any Great Britain to Northern Ireland sea border, though the issue of phytosanitary checks on animals is more difficult to address - such checks simply must happen at the border because of food safety and animal health reasons. The island of Ireland would remain a 'single epidemiologic area', and these checks of this type already occur at the ports of Larne and Belfast.

The backstop would also present a number of issues for the UK in terms of the broader trade environment. As part of a joint customs territory, with a common external tariff, the UK would inevitably face restrictions on its ability to negotiate new free trade agreements – it would also lose access to any EU FTAs that do not contain territorial extension clauses and would need to renegotiate access/deals.

It is also important to note that there are indications in the Withdrawal Treaty that this customs agreement could form the basis for the future relationship between the two - a far cry from the independent trade policy that many pro-Brexit politicians called for in advance of the referendum.

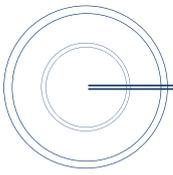
## TRANSITION

At the October summit, it appears Theresa May raised the issue of potentially extending the transition period – possibly to obviate the need for either a customs union or a Northern Ireland backstop to come into play (if the future relationship could be negotiated in time and if it allowed for a frictionless Irish border). This extension clause ultimately appeared in the withdrawal agreement – initially, and to the consternation of many Brexiteers, this took the form of a rather indelicate placeholder text indicating an extension to the year '20xx'. The sides subsequently agreed that an extension could be granted until 2022 – indeed this option may very well be needed, in light of the complexity of negotiating an ambitious future relationship, and the undesirability of the backstop. If this came to pass, it would leave the UK as a rule-taker for up to four years after the date of departure, and no fewer than *six years* after the UK electorate voted to leave the EU.

The EU has been quick to state that the deal on the table is the final one – there will be no renegotiation – and the challenge of concluding the deal now moves to Westminster, where agreement is by no means guaranteed. Many of Prime Minister May's cabinet and backbenchers, and the DUP, have insisted they cannot support either an indefinite backstop – even the review clause, which would require mutual consent, may in their view cede too much power to the EU. Given the unstable and shifting tides of the politics around the UK government the agreement of Westminster cannot be guaranteed.

## THE FUTURE UK-EU RELATIONSHIP

In addition to the Withdrawal Agreement, the negotiators agreed a Political Declaration on the Future Relationship between the EU and UK, setting out a wide-ranging and ambitious relationship - but one which inevitably falls somewhat short of what the UK had hoped for, particularly on services, especially financial services and autonomous



trade policy. Of course, with the withdrawal agreement proving so hard to conclude, much less negotiating time was spent on the future UK-EU relationship, and only the broad-strokes are agreed at this point – the real business of negotiating the future relationship can only begin after the UK becomes a third-country.

While the political declaration on the future relationship will not have the legal status the withdrawal agreement will have, it is nonetheless a significant outline of where talks on the UK's future trade and wider security relationship may go after 29th March 2019. Of course, as the EU is well aware, any early election in the UK – or even one in 2022 when the next general election is due – could change substantially the goals and aims of talks on the future relationship.

While Theresa May initially rejected a Canada-style deal as not deep enough nor reflecting the starting point of full alignment, this does appear to be the initial direction of travel signposted in the political declaration. This would essentially preclude the possibility of deeper UK access to the EU market in services – the Chequers paper proposed an expanded equivalence regime for the UK, but the political declaration makes no such guarantees, appearing to allow the UK only the more limited equivalence access currently afforded to third-countries.

It is also worth noting that both the Withdrawal Agreement and the Political Declaration reference the backstop as potentially forming a basis for the future customs relationship. However, the 'bare bones' customs union that would apply to Great Britain in that solution is still inadequate in comparison with the current arrangements (and indeed even compared to Turkey's customs union with the EU) – while Northern Ireland in this scenario would remain in a somewhat frictionless state of trade with the EU, there would still be a requirement for regulatory checks between Great Britain and the EU.

It is possible that these barriers could ultimately be further softened – the EU and Turkey, for example, engaged in extensive discussions regarding the upgrading of that Customs Union to further eliminate barriers to trade between the two. The key difference in that regard, however, was that the EU-Turkey customs union was designed as an instrument of convergence – the customs relationship with the UK is novel in this regard, being designed in the context of *divergence*. Furthermore, it is important to consider that both sides still have red lines in this regard – for the EU, the need to protect the integrity of the Single Market, and for the UK, the political need to be able to sign and ratify trade agreements in future.

Deepening the customs relationship on an indefinite basis would mean that the UK could not have the independent trade policy that Brexiters claim as one of their aims. Where talks on a future relationship may go remains, for now, wreathed in uncertainty. And, even with the provision in the withdrawal agreement to extend transition, the prospect of another 'cliff edge' will loom given the difficult challenge of agreeing (and certainly not also ratifying) a deal on a new relationship by the end of 2020, or even 2022 in the extension scenario.

The Withdrawal Agreement and political declaration have created major controversy in the UK with Tory Brexiters, remain-supporting opposition MPs (and some Tories) and MPs who would prefer a 'soft' Brexit all opposing the deal. The chances of the deal being voted through at Westminster look slight (as of the start of December). Whether, in the face of a rejection of the deal, there would be support for another referendum, a shift to a 'soft' Brexit (through renegotiating the political declaration), a general election, even a revoking of Article 50 or perhaps a second vote on the same deal is unclear. Only a handful of Pro-Brexit MPs would actually want to see

the prospect of a 'no deal' crashing out of the EU. In any event, the UK would face a major political crisis – and the EU would wait for the UK to come to a decision on its next steps.

## SCOTLAND AND BREXIT

Scotland voted remain in 2016 – by 62% to 38%. Yet Scotland is currently on track to be a full part of whatever Brexit deal the UK negotiates, or of 'no deal' if that should transpire. The Scottish government has insisted that its preference is for the whole UK to remain in the EU, that failing that it would support a 'soft' Brexit of staying in the EU's single market and customs union, and that failing that it would argue for a differentiated Brexit whereby Scotland could stay in the EU's single market while the rest of the UK left. None of these goals match with the current approach of Theresa May.

Scotland's First Minister, Nicola Sturgeon, has indicated that in the absence of these goals being met, the SNP's MPs at Westminster, the third largest group after Labour MPs, would be likely to vote against any deal May brings home. Sturgeon has also called for an extension of Article 50 and at the SNP conference, a week after our event, said SNP MPs would support any vote at Westminster on holding a 'people's vote', if it contained a 'remain' option – even if there were no provision for Scotland not being outvoted again (while saying she thought, as in 2016, there should be such a provision).

While the LibDems in Scotland – and across the UK – also support a people's vote, Labour has continued to fudge its position on that, and Scottish Labour has not diverged from Labour's UK leadership on that (albeit some individual Scottish Labour politicians have). Meanwhile Scottish Tories have indicated not only their support for Brexit but have expressed their concerns about a Northern Ireland-specific backstop as it might encourage not only differentiation in Scotland but support for independence too.

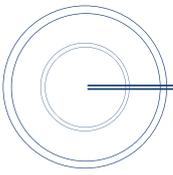
Recent polls have suggested that a 'no deal' Brexit would increase support for independence somewhat; whether the fact of Brexit happening, even with a deal, may impact more on support for independence in the coming months is an open question. There have also been many concerns in Scotland at how the devolution settlement has been and will continue to be impacted on by Brexit – with the so-called 'Sewel Convention' which states Westminster will not normally over-rule Holyrood, now seen as having no legal effectiveness at all. So alongside Scotland's pro-remain majority being out of line with the leave majority in England and Wales in 2016, there is a stand-off and political controversy around devolution too.

## IRISH POLITICS OF BREXIT

Ireland may not have had a vote in the Brexit referendum, but no issue in peacetime has preoccupied the country to the same extent as the UK's referendum and impending withdrawal from the European Union. Unlike the debate in the UK, however, there has been almost total consensus on the issue in Ireland: Brexit is unquestionably bad for Ireland, economically and politically.

As John McGrane, Director of the British-Irish Chamber of Commerce put it in his remarks at the event at the IIEA: "In voting to leave the EU, the UK aimed to shoot itself in the foot, but missed and shot us in ours instead."

It is true that Ireland's accession to the European Economic Community (EEC) helped it move away from its dependence on the United Kingdom in recent decades, but the two countries to this day maintain exceptionally close relations. The Common Travel Area that



Ireland and the UK share has existed for nearly a century and the open borders which came about as a consequence of joint EU membership and the end of the Northern Ireland conflict have contributed to turning these islands into a shared social and economic space.

Ireland can claim a greater understanding than most Member States of the British mentality, including the tendency towards exceptionalism and the at times difficult relationship with the EU, but the referendum result nonetheless came as a shock and threw the country into crisis response mode.

The Government's immediate response was to publish its Brexit Contingency Framework, the result of months of preparatory work, and by August, a mobilising of existing resources and restructuring of the Irish Government civil service was already underway. The new organisational structure notably included:

- A strengthening of Irish missions and agencies in key member states, including Germany and France
- A new Cabinet Committee on EU Affairs
- A new EU Affairs division in the Department of Foreign Affairs and Trade

These points, somewhat overlooked amid the post-referendum frenzy, were in fact crucially important indicators of the road the Irish Government was now choosing to walk: when the negotiations began, Ireland would be firmly on the other side of the table from the UK. Outreach to other Member States was to be a key part of the Government's strategy, particularly as a means of highlighting Irish concerns.

The Irish Government's approach proved to be a major diplomatic success. When the EU negotiating guidelines were published they made agreement of a withdrawal deal contingent upon agreement of the Irish issues.

Notably, while the Brexit process has had a profoundly destabilising effect on UK politics, the opposite has been true in Ireland: the last election produced no clear majority for the ruling Fine Gael, and it entered into a confidence and supply agreement with the largest opposition party, Fianna Fail. Both sides have expressed their view that the Government should not be brought down until the Brexit negotiations are successfully navigated - though this could yet mean an election prior to March 2019, depending on whether and how quickly the UK can ratify the withdrawal agreement.

Brexit also engendered a galvanising effect on Irish attitudes towards the EU – far from creating a 'domino effect' of Euroscepticism in neighbouring countries, Brexit and the chaos it has induced in the UK, combined with the solidarity shown by the EU to Ireland, has actually contributed to record levels of pro-European sentiment in the country. Polls now consistently show that over 80% of the Irish public have a positive view of the EU. Nonetheless, as the Brexit endgame begins, many commentators have begun to ask whether a price may be attached to that solidarity – *sans* a UK that was like-minded across many policy areas, Ireland will find itself more isolated in an EU that is none-too-enamoured with the Irish position on corporate tax, for example.

While the Irish Government continues to work to build new alliances, focusing particularly on Northern European countries and a new, so-called 'Hanseatic League', there is little denying that the UK's economic weight and political influence will be missed in Dublin when the EU becomes a club of 27.

## GERMAN POLITICS OF BREXIT

Germany never welcomed the UK decision to leave the EU and its Chancellor, Angela Merkel, has made that clear on many occasions. However, Germany's continued goal in the process of the Brexit talks has been to preserve the unity of the EU and of its single market. Germany has also been a clear and strong supporter of Ireland and the need to defend the Good Friday Agreement.

While Germany businesses have strong trade and investment links with the UK, the hope espoused by some Brexiters that these links would mean German business encouraged a good deal of some sort for the UK have not been fulfilled. German business, like the German government and opposition parties, recognise how vital it is to defend the integrity of the single market and its four freedoms and have concurred with the Germany government's strategy.

The UK's departure from the EU, as one of the biggest member states, will clearly impact on political dynamics across the EU27. While the UK was always in some ways an outsider given the closeness of the Franco-German relationship, it also proved an ally to Germany on some issues including free trade and the eastward enlargement of the EU in 2004. Given its opt-outs, the UK had little influence over the evolution of eurozone policies and the strategies adopted during the euro crisis. But, at the same time, the UK could, to some extent, align with member states not in the euro and help give them voice.

Germany faces many other EU challenges with the other EU member states beyond Brexit. While the UK leaving the EU will be a significant moment, Germany – like France – is now more focused on its other big European challenges.

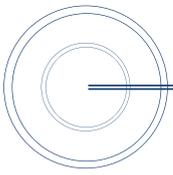
## BUSINESS AND THE ECONOMY

Uncertainty is, in general, not helpful to businesses and the economy – and so it has been with the uncertainty around Brexit. With a new British Chambers of Commerce survey showing 62% of firms surveyed had done no risk assessment of Brexit on their activities, and 67% of those surveyed in Scotland, investment and export and import plans all risk being hit. A more recent CBI survey also found that 80% of companies had cancelled or delayed investment decisions due to Brexit uncertainty – even before Brexit has happened. The fall in the pound sterling is also, already, a drag on growth.

Many studies have suggested a range of likely negative impacts on business and the economy, depending on the form Brexit takes. Even staying in the single market would impact negatively on growth to some degree, but a free trade deal or trading on WTO terms would have an even larger impact. Unless the UK stayed in the EU's single market and customs union, tariff and non-tariff barriers in particular would impact negatively on a range of sectors, cross-border supply chains and just-in-time production.

While there is no definitive future UK migration policy yet Sajid Javid's, the UK Home Secretary, outline of plans for the future raise several concerns. With the end of free movement, a focus on higher skill migration and on lower migration, will mean many sectors may struggle to get sufficient labour including to find workers for a range of lower wage (not always lower skill) occupations – from tourism to the care sector to agriculture. Some areas of the UK, notably Scotland, also rely on immigration, particularly from the UK, both to contribute to their economy and society, and to contribute to or even ensure, demographic growth or stability.

In Ireland, meanwhile, the potentially negative effects of Brexit on the economy and business are well documented, and while the



estimates of the impact on GDP vary widely, agreement on one point is unanimous: other than the UK itself, Ireland is the country that will be most negatively affected by Brexit. The term 'asymmetric shock', which was so often heard in policy circles in Dublin during the financial crisis, has re-entered the lexicon.

Having begun the 20<sup>th</sup> century as a region of the wider UK economy, over the subsequent century there was a gradual reduction in the Irish dependence on the UK. EU membership has seen the development of the two economies in parallel, both benefitting from the access to the wider EU market. However, while the ties between the two economies have been greatly reduced, they have not been broken.

The numbers speak for themselves. Nearly 14% of Irish goods exports go to the UK and 25.7% of goods imported arrive from the UK. Somewhere in the region of 3400 Irish exporters deal exclusively with counterparts in the United Kingdom. In terms of services, 18% of Irish exports go to the UK and the UK accounts for 10% of imports. Eighty-nine billion euro of Irish FDI entered the UK in 2015.

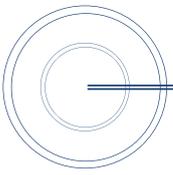
Membership of the EU's Customs Union and Single Market has been the foundation of this trade for decades, and until the shape of the UK's future relationship with the EU is determined, it is very difficult to quantify the economic impact of this major change in the relationship.

The backstop, if it were to be part of the model for the future relationship, provides us with some partial guidance, but of course its focus was primarily on maintaining a frictionless border with Northern Ireland. While the volume of trade crossing that border is not insignificant, the backstop's importance is measured in political and social terms, rather than strictly economic ones.

The East-West economic relationship is larger than the North-South one, and direct trade between Ireland and Great Britain is much greater in both industrial and agricultural products than the trade between the two parts of Ireland. This means that, in economic terms, it is more important to maintain free trade with Britain than with Northern Ireland. The backstop's bare bones customs union and absence of coverage for trade in services only partially solves this problem.

There will also be, for the foreseeable future, the danger of exchange rate volatility to contend with. Differences between the Euro and Sterling have long been a source of difficulty for business on both sides of the border. North-South trade and cross-border shopping activities have in the past been affected by large fluctuations in the euro-sterling exchange rate. The crash in sterling after the referendum was a visible reminder of this risk. Fluctuations in the euro-sterling rate since the referendum have had serious implications for product sourcing arrangements by producers and retailers – arrangements that are often difficult or impossible to change at short notice.

For Irish business, the uncertainty does not end with the UK's still hypothetical departure on 29 March 2019 – it can only be eliminated or mitigated by the successful conclusion of the talks on the Future Relationship, which may still be some years away.



# BREXIT: THE ENDGAME

## EVENT SUMMARY

### OPENING KEYNOTE ADDRESSES

The event was opened by two keynote addresses and was chaired by Dr Tobias Lock, University of Edinburgh. Alexandra Stein and Senator Neale Richmond made opening remarks followed by a short Q&A session.

#### *Dr Alexandra Stein, Head of the Scottish Government Innovation and Investment Hub in Berlin*

Dr Stein welcomed the opportunity to give the Scottish government perspective on Brexit and to speak on behalf of Cabinet Secretary Michael Russell (who sent his apologies due to illness).

Dr Stein emphasised that the Scottish people did not vote for Brexit, they voted to remain in the European Union, and continue to support that position. Brexit would be economically, socially and culturally detrimental to Scotland. If it does go ahead, then the Scottish government's consistent position has been that the UK should stay in both the EU's single market and its customs union. At the same time, the Scottish government is making all necessary preparations for Brexit, including mitigating the impact of EU exit where possible.

Dr Stein said, in terms of the impact so far of Brexit on devolution, that Scotland and the UK are in uncharted waters constitutionally both in terms of the Sewel convention and in the return of EU powers in devolved areas.

As far as the withdrawal agreement goes, Dr Stein emphasised that the Scottish government sees reaching agreement as vital, including allowing for a transition period. On the future relationship, the Scottish government considers Chequers impractical and the choice between that or no deal as a false one.

From a German perspective, being based in Berlin, Dr Stein said that the German government regretted the UK's choice to leave the EU but they also consistently emphasised the integrity of the single market, the importance of the talks being led in Brussels by Michel Barnier, and the fact that a country cannot leave the EU while maintaining all the advantages.

The Scottish government, explained Dr Stein, is committed to maintaining and developing its European relationships despite Brexit. And that is why it has opened hubs in Dublin and Berlin with Paris to follow. She welcomed the positive impact the Scottish government's Dublin hub had had on Scottish-Irish relations.

Given the range of challenges facing Europe and beyond, the Scottish government is sure that solutions can only be found in multilateral

cooperation. Whatever lies ahead in the coming months, Scotland will remain open, outward facing and a welcoming country and a positive, constructive partner to its European friends.

#### *Neale Richmond, Chair of the Seanad Brexit Committee*

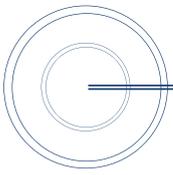
Senator Richmond welcomed the IIEA, SCER and KAS event, calling it very timely. He started by saying that, in the last two and a half years since the Brexit vote, nothing has changed and everything has changed. But the immediate timeline now is very short. The fact that talks have not yet concluded is, Senator Richmond emphasised, very troubling – deadlines and opportunities have been repeatedly missed. Brexit in itself is, he said, terrible, there is no good Brexit.

The joint agreement last December (between the UK and EU negotiators) still stands, the Senator said. The European Commission then produced a legal draft which the UK turned down very quickly, while still failing to come up with its own alternatives. He emphasised that it is the withdrawal agreement that is the key negotiation now; there are no free trade talks – the latter are for the future not now. And looking at talks with Canada, South Korea and Japan, we know, he said, that these take a long time.

The withdrawal agreement focuses on the bill, citizens' rights and Northern Ireland. Senator Richmond also stressed that the UK is receiving much in return for its payment of the bill given its access to the single market and more through to the end of December 2020. Citizens' rights have also been dealt with – and for Ireland, given the Common Travel Area, this has been relatively straightforward. But the third issue of the border and remaining compliant with the Good Friday Agreement is the vital and still unresolved issue.

Senator Richmond emphasised that any backstop agreement for Northern Ireland had to be permanent not temporary. He said there was no timeline that could be put on peace. He reminded the audience that the whole purpose of the EU was rooted in the desire for continued peace and so the backstop is vitally important to the whole EU side.

Senator Richmond said he thought the on-going talks would result in a deal. He said that the deal, of course, had to get through Westminster and he hoped it would. But he said much less attention had been put on the fact that it must also get through the European Parliament by mid-March. He stressed that the European Parliament would need 6 to 8 weeks to scrutinise the deal before any vote. So, he said, there was very little time left – that was determined by Article 50 and the UK knew that when it voted for Brexit and when the UK government triggered Article 50. The European Parliament should not be taken for granted and has taken its role in the talks very seriously.



In concluding, the Senator wished all participants in the event a successful and interesting afternoon of discussion.

## **PANEL A: BREXIT: WHERE ARE WE NOW AND WHERE ARE WE GOING?**

**Chair:** Daithi O’Ceallaigh, *Chair of the IIEA UK Group and former Irish ambassador in London*

**Lucinda Creighton, CEO of Vulcan Consulting and Former Minister of State for European Affairs**

**Dr Kirsty Hughes, Director of Scottish Centre for European Relations**

**Sebastian Gehrold, Senior Advisor to the Brexit Working Group, CDU/CSU Parliamentary Group at the German Bundestag**

### **1. Lucinda Creighton, CEO of Vulcan Consulting and Former Minister of State for European Affairs.**

Ms Creighton commented on the state of play of the negotiations and the likelihood of reaching a deal. There has been very little actual progress; the more things happen, the more they remain the same, she commented. The commercial sphere are trying to navigate great uncertainty and prepare themselves. This is easier for multinationals than it is for SMEs, but nobody has an idea of what is going to happen. The cost implications of preparation are great.

The EU consistency and certainty around their intentions and purpose has been welcome from an Irish perspective, Ms Creighton commented, and the solidarity the EU 27 showed Ireland was greatly underestimated in the UK. It ensured that the Good Friday Agreement and the border has been at the forefront of negotiations.

However, the solidarity of the EU doesn’t solve Ireland’s problem. Ireland will be one of the most impacted countries if there is no deal. This is a huge threat from a bilateral point of view and Ireland is unprepared for the impact on multiple sectors of the economy.

Ms Creighton observed that from the UK side, most of the negotiations are taking place internally, which is the reason there has been so little progress on the backstop or reached any clarity on the customs union. Ms Creighton described herself as a “pessimist when it comes to these negotiations” and was concerned regarding the incompatibility of the two negotiating positions. Ms Creighton posited that unless either party moved their red lines, a deal is unlikely.

There is a fudge to be found, Ms Creighton suggested. However, given the divisive nature of the debate in the UK and the consistent EU principle of solidarity, there can be no certainty as to whether this will present a solution.

### **2. Dr Kirsty Hughes, Director of Scottish Centre on European Relations**

Ms Hughes centred her commentary on the internal dynamics of the UK negotiations, broad public opinion in Scotland and the likelihood of a People’s Vote. She highlighting the extraordinary uncertainty ahead in light of the short timeframe in which there is left to strike a deal. A cross-party group of Scottish politicians asked the European Court of Justice whether Article 50 could be unilaterally withdrawn.

Domestically, UK politics is imploding. It is currently in a state of chronic crisis and, depending on how Brexit progresses, could be tipped over into a state of acute crisis. The Tories are imploding, but are still ahead of Labour in the polls. Dr Hughes claimed that Labour are ineffective in opposition, both because of Eurosceptic leadership and because they supported the Brexit vote. The SNP vote will be important in Parliament.

In Scotland, pro-independence voters are now more pro-remain than ever, even more so than Labour and LibDem voters. They are more in favour of a People’s Vote than ever before as our Labour and LibDem voters. Nicola Sturgeon and the SNP leadership have been lukewarm when it comes to a People’s Vote, but are slowly edging towards this choice.

Dr Hughes noted that when ‘don’t knows’ are excluded, in the latest public opinion polls, a quarter of citizens believe that there won’t be a deal so if there is this will be a surprise to many. She considered it likely that there will be a deal, but commented that if there is a deal and the EU and UK are both singing from the same hymnsheet, it will be interesting to see where public opinion goes. She questioned how a deal would get through parliament and whether Labour will vote against it or abstain.

Dr Hughes commented that any free trade arrangement on goods would overlook the importance of services in the UK economy. The damage of competitiveness is incredible. She further explored the possibility of whether or not the deal would get through Westminster. If it does not, Dr Hughes claimed that UK politics could be tipped from a chronic political crisis to an acute crisis. There may be a general election, a no-confidence vote, or a People’s Vote.

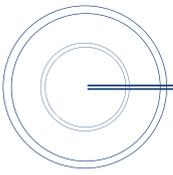
Alternatively, Theresa May could return to Brussels to renegotiate the deal. She suggested that it is possible that the Tory remainers could support a people’s vote over the prospect of a general election. It is also possible that there could be no majority for any of those options. There may be an election at some point. Dr Hughes predicted a minority Labour government as one possible scenario potentially giving more influence to the LibDems and SNP.

Ireland have been played an excellent diplomatic game in the face of Brexit, Dr Hughes said. She also identified similarities between Scottish and Irish interests, not least Scotland is pro-remain. But Ireland and the other EU26 will want any deal to get through the UK parliament. If it doesn’t, there may be a people’s vote. If there is a deal with an Irish backstop, the Scottish government may want a similar arrangement. Brexit, if it goes ahead, will also impact on the dynamics of Scottish independence.

Dr Hughes concluded that either there will be a deal and it passes and the UK “shuffles out of the EU” and tries to negotiate a trade deal, or the Prime Minister fails, in which case there is a risk of an acute crisis. However, she said, rejecting the deal at Westminster is the only route to stopping Brexit, which is still possible. A rejection of the deal could lead to another EU referendum and – give current opinion polls – a good chance of a ‘remain’ vote.

### **3. Sebastian Gehrold, Senior Advisor to the Brexit Working Group, CDU/CSU Parliamentary Group at the German Bundestag.**

Mr Gehrold addressed the European elements of Brexit from a German perspective. He examined what the impacts of Brexit were likely to be for Europe and gave a brief analysis of the likely direction of the negotiations and recommendations for the future of the EU post-Brexit.



Brexit is bad news for the EU. The EU are losing economic, political and military power to a great extent. Brexit means that there will be a shift away from the common sense, stability and growth orientated Northern states, towards Club Med. This is also bad for Germany, and for Ireland. Brexit will be catastrophic to the UK, according to Mr Gehrold. The Brexit vote has a lot to do with the decline of political culture and political leadership in the UK. He cited a failure of the elites to uphold an idea that many were committed to, as one of the reasons for the Brexit vote.

Mr Gehrold also raised the question of the future direction of the EU after Brexit, in particular, how the EU would deal with the question of integration going forward. This was an issue which was not managed well by the EU as regards Britain. There had been complaints from London since the Maastricht Treaty, which established the kind of integration the UK weren't happy with. The EU needs to address the question of where we are going.

Mr Gehrold turned to what he described as the four most frequently asked questions about Brexit:

- Will there be a deal? Mr Gehrold believed so, and gave this an 80% probability.
- Will the deal be good for Ireland? Mr Gehrold was very optimistic on this point; he believes if there is a deal, it will be good deal for Ireland, although nothing will be as good as it is currently. He doesn't think the impact will be politically disastrous for Ireland. There is a fair chance that Ireland will come out of the situation quite well.
- Will there be a second referendum? Mr Gehrold considered this option to be unlikely but not impossible. He suggested there is a 25-30% chance of this. A number of things would need to occur in order for this to happen.
- Finally, will the European Union collapse in the next 10 years? Mr Gehrold thinks this to be highly unlikely.

The European Union does need to learn lessons from Brexit, however. Mr Gehrold indicated firstly that populism and political extremism on the right and left need to be countered. This will require significant political work. Politicians need to talk to and listen to constituents. They also need to "stand up against nonsense."

Secondly, the final destination of European integration needs to be addressed as a topic. The ever closer Union was a good idea but people did not foresee how far it would progress. Mr Gehrold reflected that national cultures vary across Europe and we need to respect those who want less integration than others and need to address this question. This is not to say that integration needs to stop now, or in the near future, but room for intelligent discussion should be started in appropriate forums, rather than tabloid newspapers.

Mr Gehrold concluded by saying that a positive narrative around the EU is also needed. Europe should be about opportunity, in education, trade, business, growth, stability and peace. If the EU can shape this narrative in the coming years, there will be a bright future ahead.

## PANEL B: BREXIT, BORDERS AND BARRIERS

Chair: Iain MacWhirter, *Political Commentator at the Herald Scotland and the Sunday Herald*

**1. Dr Katy Hayward, Reader in Sociology at Queen's University Belfast**

Dr Hayward focused her remarks on the current state of the Brexit talks and how that relates to the Irish border question and the Northern Ireland backstop.

Dr Hayward argued that there were currently three high-level problems. Firstly, the UK and EU were not in many ways focusing on the same thing. The EU's priority is to conclude the withdrawal agreement while the UK's focus is more on the future relationship. The UK government had not, it seemed, made it clear even within the government let alone to the general public what could genuinely be achieved at this stage in terms of the future relationship. The consequences are that the withdrawal agreement will be judged on what it means for the future relationship, rather than on what certainty it brings in terms of the UK-EU divorce.

Secondly, both sides do agree that there must be a backstop and, at the same time, they also agree they don't want to have to use it. But the backstop will be in the withdrawal agreement and will be legally binding while the political declaration on the future relationship will not be. So there is a tension there in that the backstop that they don't want to use will, for a long time after 29 March 2019, inevitably seem more legally secure than the wider UK-EU relationship that they want to achieve.

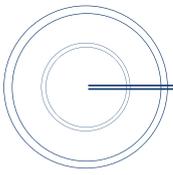
Thirdly, the other key challenge for Theresa May is whether the House of Commons will vote to endorse the withdrawal agreement and the political declaration on the future relationship. Dr Hayward thought it unlikely that the Labour party would do anything other than vote against any deal May brought back. She then considered the positions of the DUP and the ERG group of Conservative MPs. While in many ways their positions on Brexit can look similar, not least in their dismissal of the consequences of leaving the EU for the Irish border, in other ways their positions are different. For the DUP, any solution needs to be UK-wide, so that would have to include a customs union for there not to be a hard border, as well as – to some extent – following single market rules. However, the ERG does not support a customs union or single market alignment. Part of any deal will have to be Northern Ireland-specific arrangements, so that will not please the DUP – immediately making it unlikely that they will vote in support of the withdrawal agreement.

Lastly, Dr Hayward considered the question of timing and whether the UK would bring forward proposals around a temporary all-UK customs union in the hope placating the DUP and ERG threat to vote the deal down. The interesting question remained how this would be set out in the withdrawal agreement to give it legal status alongside the Northern Ireland specific arrangements. Moreover, there has to be Northern Ireland specific arrangements of sorts to meet the commitments of the December 2017 Joint Report, for example in North/South cooperation.

If the withdrawal agreement is rejected by the UK Parliament, the scope for the EU to amend the withdrawal agreement will be very limited. Dr Hayward also noted that it will not avoid the fundamental problem: the fact that few UK MPs and commentators have properly confronted the fact that this stage is but the divorce, and the very beginning of a long process of compromise and change.

**2. Dr Paul Gillespie, Member of the IIEA UK Group and Irish Times Columnist**

Dr Gillespie argued that the UK is facing a structural political crisis, with its political system looking dysfunctional and its constitutional future both vis-a-vis the EU and between London and its constituent nations being deeply strained. He explained that these questions revolved around conceptions of sovereignty and underlay much



of the drivers of Brexit. As such, these constitutional changes and challenges in the UK had major implications for Ireland too. Dr Gillespie explained that in the Institute of Irish-British Studies in UCD they were working on in-depth analysis of these constitutional challenges and potential constitutional futures.

Dr Gillespie suggested that the discussions around softer or harder versions of Brexit interacted with approaches to sovereignty and whether it was seen as shared or absolute. This, he said, related directly to the issue of multilevel systems of integration at national, EU and European levels. In the UK, proponents of Brexit had resurrected an old-fashioned view of absolute sovereignty that is at odds with the shared sovereignty that both underpins the EU and the Belfast agreement. This also relates to how centralised or devolved political control is in the UK, an issue not least for Scotland and, of course, for Northern Ireland. It also then links to questions around shared or exclusive national or British political identities. Having an exclusive English identity, he said, has been identified by political scientists as strongly correlating with support for Brexit.

How these trends evolve next will impact directly onto the political decisions and choices that Ireland itself will have to make. Dr Gillespie argued there were four scenarios that were visible at the moment.

Firstly, in the case of a softer Brexit, he argued that there could then be a renewal of existing North-South structures of the Belfast agreement and renewal of the institutional settings of the East West relationship.

But secondly, he suggested, that there might be a deeper federalisation of the UK which might help to overcome many of the existing pressures. In that case, however, you would have to ask how that could come about – would it be, for example, through a Labour government or some sort of coalition with Labour at its heart.

Thirdly, Dr Gillespie suggested that there might be a more differentiated outcome whereby Northern Ireland had one set of particular arrangements, Scotland had a different set, and taken together that also might enable a more stable political system to reassert itself in the UK.

Fourthly, a different scenario would be one that involved Irish reunification within the EU, Scottish independence, and a new constitutional settlement for England and Wales – all these would then relate rather separately and distinctly to the EU. These challenges and possibilities, Dr Gillespie stressed, come out of the structural crisis in the UK and not out of any traditional irredentist Irish nationalism. He concluded that these scenarios needed much more discussion and research and welcomed any comments.

### **3. Dr Eve Hepburn, Director of PolicyScribe, Edinburgh**

Dr Hepburn explained that she would focus on an analysis of the outline proposals that Theresa May and her home secretary Sajid Javid have finally started to make of what a post-Brexit immigration system might look like.

Dr Hepburn saw 4 main headlines in the outline proposals. Firstly, freedom of movement would end. Post-Brexit, EU citizens will be given no preference and they'll have to apply, like third country nationals, through the UK's visa system. Equally, any employer who wants to hire a worker will have to go through the bureaucracy of the points based system, as well as paying a thousand pounds 'skills charge' each year which is quite a lot of money for small and medium sized enterprises.

Secondly, she explained, there will be a bias towards high-skilled, high-paid labour. EU workers will only be able to apply through the

high-skilled tier two route, which has recently become known for its high rejection rate. As a concession, Javid said he plans to scrap the current cap on tier two migrants, which is just over 20,000 a year and he is also expanding the eligible list of medium skilled jobs. But applicants will have to meet a minimum salary threshold, which currently stands at £30,000 a year. So any EU worker in the future who is not making £30,000 pounds a year, which is currently about 75% of EU workers in the UK, will find it very difficult to come to the UK in the future.

Thirdly, Dr Hepburn said that there is likely to be a massive decline in low-skilled migrants coming to the UK. The only exception may be agriculture. This move to reduce low-skilled labour is a popular political move, rather than an economic one. She emphasised that the Brexit referendum was motivated by an anti-immigrant sentiment, especially the feeling that low-skilled migrant labour was stealing British jobs, but she saw this move as potentially catastrophic economically.

Fourthly, Dr Hepburn explained, European citizenship in the UK will end. British citizens will no longer have access to the multiple benefits afforded to them by EU membership. Equally EU nationals will face increased obstacles to obtain rights in the UK because Javid has started talking about creating a more restrictive British values test that all future citizens, including EU citizens will have to meet.

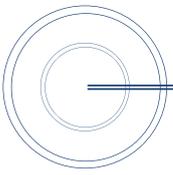
Dr Hepburn saw eight main issues that would arise given these four key headline proposals. In brief, they are as follows. Firstly, massive labour shortages in key sectors of the UK economy. Secondly, there may be an increase in taxes as the number of EU workers decline in the UK because EU workers in the UK on average contribute £2300 more per head to the UK purse than the average British citizen. Thirdly, she explained, in the longer term, there could be a potential drop in the demographic growth of Scotland, Wales and Northern Ireland which are heavily reliant on EU migrants to maintain their current population rates. Fourthly, Javid has also started talking about increasing barriers to naturalisation by toughening up citizenship rules. This continues a trend towards coercive civic integration policies in the UK.

Dr Hepburn also considered, fifthly, that there may be continuing hostility towards migrants in the UK, which has increased since the referendum. Sixth, she argued, there will be an overloaded home office once EU migrants are added to the current tier two system. Seventh, there may be a retaliation in kind from the EU who are dismayed by May and Javid's proposals to restrict future EU migrant flows to high skilled only. Finally, eighth, she foresaw an increase in constitutional tensions amongst the constituent nations of the UK.

### **4. Dr Nicolai von Ondarza, Head of EU/Europe Research Division at the German Institute for International and Security Affairs (SWP)**

Dr von Ondarza said that the first message he wanted to give from Berlin was how ingrained the Northern Irish question has become in the Berlin debate on Brexit and how much importance Germany puts on that question. He saw this on the one hand, as an important question of solidarity with an EU member state, but also as a question of core national interest. The core national interest of Germany in the Brexit negotiations is safeguarding the cohesion of the EU 27 and the Single Market.

For Germany, the Brexit negotiations are not just about the relationship to the United Kingdom, they are also about the future of the European Union. This means for Germany showing that every EU member state is protected and that the interests of all EU member states are protected. Dr von Ondarza gave one telling example. When the German Foreign Minister, Heiko Maas, had his first bilateral



meeting with the now former foreign minister Boris Johnson in London, Maas chose explicitly first to fly to Dublin and only then on to London and so show that Germany was taking care of the interests of all EU member states.

He then set out how Germany sees the Northern Ireland backstop issue. Germany is very clear, he said, that this is an issue that needs to be solved in 2018, it cannot be fudged. Both Brussels and Berlin consider that the only solution is to make sure the backstop is legally binding by putting it in the Withdrawal Agreement – and that there cannot be such an agreement, including a transition deal, without it.

Dr von Ondarza also emphasised that on question of the border and the backstop, it's very clear that this is a border, not just of Ireland, but also of the whole EU 27 and it therefore needs backstop elements of the single market and of the customs union. For Germany having both these two elements is very important, he explained.

He also suggested that there could be points of tension in the future between Germany and Ireland concerning the shape of the backstop. As Northern Ireland is about 2 per cent of the UK economy, it is something very different for the German Government to give access to the customs union and partially the single market to 2 per cent of the UK economy, or to give it to the UK as a whole without the obligations that are in place for an EU member state. So he did not foresee a full all-UK backstop that included the single market. He also considered that if there is a backstop that includes an all UK customs union, there would need to be clarity on many issues including how third country trade agreements apply to the UK and also what should happen to tariffs that the UK collects for goods destined for the EU market.

Dr von Ondarza also explained there could be further tensions in the case of no deal. In that case, it would be necessary to discuss what sort of border controls would be needed – not immediately perhaps but soon. That would be a very difficult situation.

## PANEL C: BUSINESS AND ECONOMIC CHALLENGES

Chair: Frances Ruane, *Member of the IIEA Board and former Director of the ESRI*

John McGrane, *Director General of the British-Irish Chamber of Commerce*

Jürgen Matthes, *Head of the Research Unit for International Economics and Economic Outlook at the German Economic Institute in Cologne*

Liz McAreevey, *CEO of Edinburgh Chamber of Commerce*

### 1. John McGrane, *Director General of the British-Irish Chamber of Commerce*

John McGrane gave an analysis of the role of business in negotiating an optimal Brexit deal, and the implications of the prospect of a hard Brexit for centrist politics.

He particularly expressed concern about the divisions he has witnessed among business leaders regarding Brexit. Business was extremely late to wake up to the reality of a no-deal Brexit. Up until Airbus announced their concerns, there had been no serious industry comments on Brexit. It was the first time that a business had come out and said 'this is trouble'. In recent weeks, other businesses such as Jaguar Landrover have spoken out with warnings regarding Brexit. In February, Jaguar Landrover said that they are going to close one

of their three production lines in Halewood, which would amount to their cutting a third of their production capacity. The following day, they announced their nearest actual investment in the future of autonomous digital driving design and automation in Shannon. Mr McGrane made the point that business has been late, but it has finally begun to register what is going on and to take action.

An example of the results of the failure of business to speak out about the impact of Brexit can be seen in the results from constituencies such as Sunderland, which voted to leave. There are 34,000 in Sunderland employed by Nissan and its supply chain, and 80 percent of what Nissan does depends on open links to the EU. The prospect of a hard-Brexit has finally been registered.

Mr McGrane made the point that the prospect of a hard Brexit is finally dawning and it's the reason, in his view why the middle shall hold. The only thing business in Britain fears more than Brexit is Jeremy Corbyn. The only thing that's keeping the Brexiteers from ousting the Prime Minister is the realisation that Jeremy Corbyn could just about get into power. This is a momentum binding the centre together and enabling the Prime Minister to survive.

Mr McGrane depicted a no-deal outcome as Armageddon. The British-Irish Chamber of Commerce has been doing some work with one of Ireland's largest retailers who are in the process of telling suppliers that they expect them to deliver on their contracts, or the contract would not be renewed. Although this might be seen as very heavy pressure, the same is happening in the UK. There must be a supply-chain back up for food and goods or there will be disarray. The ports have absolutely no capability as there's no planned land around the Irish ports. Cork and Rosslare are particularly at risk. Dublin will be fine, but the M50 won't. Trucks will simply back up onto the arterial routes. It will be worse in Britain.

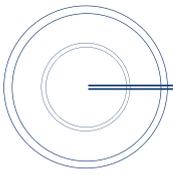
Mr McGrane thinks that a deal will be crafted, but reminded his audience that this is only the first step. It is only after an agreement is reached that the real work begins. The first thing needed is a greatly extended transition period. 21 months to the end of 2020 will not be sufficient. The process will need to be extended almost indefinitely to allow for a full-up future trade deal. There are still those, for example at the Conservative Party conference criticising the Prime Minister and telling her to 'chuck Chequers'. Chequers wouldn't have been agreed in Europe anyway, not least because it doesn't acknowledge services or free movement.

Mr McGrane concluded by saying that they think that over the coming weeks a deal will be found. Business, however, needs to be vocally airing its point of view.

### 2. Jürgen Matthes, *Head of the Research Unit for International Economics and Economic Outlook at the German Economic Institute in Cologne*

Jürgen Matthes addressed the macroeconomic aspect of the debate, assessing the reality of the claims of Brexiteers and evaluating the short term and long term impacts of Brexit.

On the long-term impact, the German Economic Institute in Cologne did a meta-study into the various findings on the long term impacts of Brexit. Mr Matthes concluded that disparity in findings before the referendum was striking that before the referendum, the economists for Brexit predicted plus 10 % of GDP and others saying that a loss of 20 % could be expected. It's a huge spectrum. The Institute looked deeper and found that if the pros and cons of Brexit were calculated, there was a clear negative impact, but the outcome of most studies was that the impact was in the low single digit area: 2-4 percentage



points over 10-15 years. After looking deeper into the studies, the Institute found that even the most reliable models are incapable of factoring in all the positive impacts of economic integration. They tried to design a method to examine the impact of a hard Brexit, and found that there could easily be a 10 % change in this case. Again, this is a difficult calculation, so the Institute have since focused on the short term impact, i.e. since the referendum.

The two aspects upon which a short term evaluation can be based are the devaluation of the pound, and uncertainty. Mr Matthes focused on the devaluation of the pound. This made UK exports cheaper, but also made German exports to the UK more expensive. The Institute did a calculation that found that if the pound devaluates by 10% a decline of 6% could be expected in German merchandise exports to the UK. This was seen in the second half of 2016, German exports to the UK declined by 7%. This is significant in light of the fact that in the previous years, German exports to the UK grew by 5-10%. Brexiteers were helped in the initial stages of Brexit, due to the fact that many studies predicted a recession short term following Brexit, which didn't happen. Although business cycle indicators declined immediately, they went up again, so growth momentum was maintained. Mr Matthes outlined that this was because private consumption in the UK was dynamic and remained this way. The labour market was also very positive.

The effects of uncertainty and of the pound devaluation can be seen time after time. These are a drag on growth. The UK economy grew before the referendum by 2.2-2.5% in the years before, much faster than the euro area, Mr Matthes commented. Now the euro area grows faster and the UK grows less dynamically, at about 1.5%. This is due to the impact of devaluation, which made imports more expensive, leading to an increase in inflation. Nominal wages grew but, real wages declined. This meant that consumption growth which was 3% per year came down to 1 ½%.

Mr Matthes remarked that private investment in the UK is declining, particularly investment from abroad. From 2000-2016 FDI flow to the UK was by far the largest among EU member states. In the last year however, the UK was only 5<sup>th</sup> or 6<sup>th</sup>. FDI declined from 65 billion a year on average to 50 billion. Mr Matthes referred to this drop as a manifestation of uncertainty. In the past, the UK served a bridgehead function for international companies due to the language and access to the EU market. If there is a hard Brexit, it is likely that the UK will lose this investment.

Mr Matthes said that the above indicators suggest a decline in growth for a number of different reasons relating to Brexit and a loss of attractiveness as an investment location. According to most projections, the current growth rate of 1.5 % is expected to continue. This will not lead to much unemployment. The labour market is pretty strong. The question then is: will the people realise that Brexit is really a drag on their economy? Mr Matthes suggests that maybe they will not, in which case, if there is a second referendum and people are not feeling the damage of Brexit, they will not change their minds. Although they may know the economy might not grow as dynamically as before, they do not know that it could have grown by 2.5% and now it grows by 1.5%. If they haven't lost their job nothing changes so very much.

Mr Matthes concluded his remarks by commenting on the theory of gravity in the trade sense. He described the theory in terms of how intensively one partner trades with another, near or far away. The larger the partner the greater the trade, the nearer the partner, the greater the trade, the further away, the less intensive the trade. The UK is losing a partner both large and close, and Mr Matthes observed that it cannot be substituted with any partner small and far away.

Prime Minister Theresa May can dance as much as she wants, but she cannot defy gravity.

### 3. Liz McAreavey, CEO of Edinburgh Chamber of Commerce

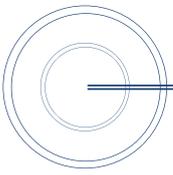
Liz McAreavey focused on the uncertainty following Brexit, how this will impact business, and gave a broad overview of the Scottish dynamics in Brexit. Ms McAreavey commented that for business, trade and economics are of primary importance, while Brexit has been about sovereignty, communities and emotion. When talking to a number of pollsters, in order to test the temperature of business and citizens who supported leave, they understand that they will be paying higher taxes, have less disposable income, fewer public services and a lower pension fund, but would vote the same way. Ms McAreavey identified this as one of the main challenges of Brexit for business.

From a trade and labour perspective Ms McAreavey commented that she found it hard to see how anything else can come close to the benefits of the status quo. However, businesses appear to believe that they're resilient and she commented that the Brexiteer promises that there are limitless opportunities ahead are still prominent. Businesses feel that they will overcome challenges and that they will make the best of what they have to do. Immediately post-Brexit the Edinburgh Chamber of Commerce set up a business Brexit group. The group gleaned that the top five issues at the time were: access to single market; access to migrant workers; regulatory stability; concern about EU funding; and a stable tax regime. About a year later the group had to be disbanded as there was nothing to discuss. After 12 months it transpired that the focus had turned to social cohesion and uncertainty and Ms McAreavey commented that uncertainty has been the mantra of business ever since.

Turning to the Scottish side, Ms McAreavey discussed the Scottish results of a Brexit survey conducted by the British Chambers of Commerce over the summer. Of the 2000 businesses surveyed, 250 were from Scotland. Ms McAreavey reminded the audience that the majority of Scotland voted to remain, and that the Scottish first minister has called for a delay in Brexit if there is no deal. While this creates constitutional tension, this position is supported by the vast majority of Scottish businesses. Ms McAreavey suggested that uncertainty is the reason for this. Scotland has a significantly higher proportion of fisheries and farming and has had more use of EU structural funds, meaning they need more clarity on how these industries will be managed going forward.

Ms McAreavey suggested that migration will be one of the biggest challenges of Brexit, and there will be a job to be done on this. Scotland is heavily reliant on migrant workers in Scotland. Tourism, education, agriculture, and fisheries are all sectors which are heavily reliant on migrant workers. As an example, Ms McAreavey referred to a conversation with someone in the hotel sector recently saying as much as 70-80 % of their workforce are filled by mainland European workers. She posed the question as to how businesses, particularly global companies with European headquarters will transfer people into new jobs.

Ms McAreavey also addressed trade. Britain has a huge productivity challenge and fewer businesses with a global mindset, she argued. The two complement each other well. Businesses who trade internationally tend to be more productive. International trade should therefore be made easier, with fewer not greater barriers and cost. Scotland is currently world leading in data innovation. The University of Edinburgh is in the top three in the world for data driven innovation. Edinburgh has set itself the ambition of being a data capital of Europe. It has committed to developing 100,000 digitally



skilled people for the Scottish economy in the next five years. This presents huge opportunities for the Scottish economy, particularly around developing sectors like fin-tech. In spite of this, there is a lot of insecurity about the transport of data across jurisdictions and how Scotland can continue to attract investment. Scotland will have a skilled pool of digitally skilled people and yet will not be in a position to attract the investment to take advantage of that.

Ms McAreavey reflected on the international element of the Brexit survey. Out of the 250 respondents, about half are import-export, and would consider themselves as part of an international supply chain. She outlined the key findings as follows:

- Uncertainty over Brexit is the most important factor when considering import-export decisions, for 53 % of businesses this is larger than their concern over exchange rate volatility or even their own financial position.
- 40% of the sample are engaging in direct trade with Ireland. Half of these have not taken any preparatory action with regard to potential customs or border issues.
- About 10% of businesses are considering their current supply arrangements.
- Over 2/3 of firms have not yet engaged in any risk assessment or preparatory planning on Brexit.
- About a fifth of businesses reported a change in the number of EU workers they employ.
- 94% of businesses reported a drop in the number of EU workers that they are employing
- A no-Brexit deal would see 82% of businesses looking to cut recruitment and investment.
- A status quo transition period results in businesses saying that they are less likely to change their existing plans
- 20% prefer the government to move forward with no-deal.
- The majority of the sample believe that trade with the EU should be the government's focus in the medium term,
- 25% believing that trade with countries outside the EU should be the priority.

In conclusion, Ms McAreavey identified uncertainty around Brexit as a key factor in import-export decisions. A no-deal option will have a substantive impact on recruitment and investment plans across Scotland in a mostly negative direction. Businesses say that a status quo transition would be a more positive outcome and would provide less disruption. If a deal can't be reached, they would much prefer to extend negotiations. Contingency planning in Scotland is about 5% higher than the rest of the UK. 67% in Scotland, 62% in the rest of the UK. Businesses are resilient and Ms McAreavey was optimistic that they will make the best of it.



# PROGRAMME

2.00PM ————— **REGISTRATION AND REFRESHMENTS**

2.15 - 2.20PM ————— **WELCOME**

*Felix Dane, Head of the Konrad Adenauer Stiftung (KAS) Great Britain and Ireland Office*

2.20 - 2.45PM ————— **OPENING KEYNOTES**

**Chair: Dr Tobias Lock**, *Senior Lecturer in EU Law at Edinburgh University*

**Dr Alexandra Stein**, *Head of the Scottish Government Innovation and Investment Hub in Berlin*

**Senator Neale Richmond**, *Chair of the Seanad Brexit Committee*

2.45PM ————— **PANEL A - BREXIT: WHERE ARE WE AND WHERE ARE WE GOING?**

A discussion of the current state of play in the Brexit negotiations, with particular reference to whether a Withdrawal Agreement and political declaration on the framework for the future relationship will be agreed this autumn and its implications for relations between the UK and the EU27. Followed by Q&A.

**Chair: Dáithí O’Ceallaigh**, *Chair of the IIEA UK Group and former Irish Ambassador in London*

**Lucinda Creighton**, *CEO of Vulcan Consulting and Former Minister of State for European Affairs*

**Dr Kirsty Hughes**, *Director of the Scottish Centre for European Relations*

**Sebastian Gehrold**, *Senior Adviser to the Brexit Working Group, CDU/CSU Parliamentary Group, at the German Bundestag*



3.30PM

**PANEL B - BREXIT, BORDERS AND BARRIERS**

A discussion of the implications of Brexit for Ireland, Northern Ireland and Scotland, with particular reference to the solutions available for Northern Ireland. This session will also look at what the likely future relationship means for the EU/UK border in general. Followed by Q&A.

**Chair: Iain Macwhirter**, *Political Commentator at the Herald Scotland and Sunday Herald*

**Dr Katy Hayward**, *Reader in Sociology at Queens University Belfast*

**Dr Paul Gillespie**, *Member of the IIEA UK Group and Irish Times Columnist*

**Dr Eve Hepburn**, *Director of PolicyScribe, Edinburgh*

**Dr Nicolai von Ondarza**, *Head of EU/Europe Research Division at the German Institute for International and Security Affairs (SWP)*

4.15PM

**TEA AND COFFEE**

4.30PM

**PANEL C - BUSINESS AND ECONOMIC CHALLENGES**

Regardless of the format of the final deal, Brexit will present a range of economic challenges for Ireland and the UK itself. In this session, speakers will discuss these challenges and highlight opportunities for future collaboration on business and trade issues. Followed by Q&A.

**Chair: Frances Ruane**, *Member of the IIEA Board and former Director of the ESRI*

**John McGrane**, *Director General of the British-Irish Chamber of Commerce*

**Jürgen Matthes**, *Head of the Research Unit for International Economics and Economic Outlook, German Economic Institute*

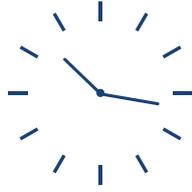
**Liz McAreavey**, *CEO of Edinburgh Chamber of Commerce*

5.15PM

**EVENT ENDS**



# ABOUT THE SPEAKERS



## WELCOMING REMARKS

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**Felix Dane**, *Head of the Konrad Adenauer Stiftung (KAS) Great Britain and Ireland Office*

Felix Dane is the Head of the Konrad Adenauer Stiftung (KAS) Great Britain and Ireland Office. Felix previously represented KAS in the Palestinian Territories, and later in Brazil. Felix then spent some time as Head of International Human Resources at the foundation's headquarters, in Berlin. Prior to his experience at KAS, Felix spent five years at the European Parliament. He holds a Master's Degree in European Studies from the LSE and is fluent in English, German, Portuguese and French, with an intermediate level of Spanish

## KEYNOTE SPEAKERS

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**Dr Alexandra Stein**, *Head of the Scottish Government Innovation and Investment Hub in Berlin*

Alexandra Stein is Director of the Scottish Government's Innovation and Investment Hub in Germany. She represents Scottish interests in Germany, strengthening bilateral relationships and promoting the development of new and existing partnerships between the two countries. She oversees the development of trade and investment links, as well as cultural and academic ties. Alexandra has experience across a broad range of senior policy and operational roles in the Scottish Government, many of which have focused on business and enterprise. In 2014 she undertook the Fulbright Saltire Fellowship in Boston, and then became Business Development Manager and Head of Innovation and New Technologies at Ferguson Marine. On returning to government, she worked at the interface of innovation, entrepreneurship and industry before taking up post in Germany.

**Senator Neale Richmond**, *@nealerichmond*, *Chair of the Seanad Brexit Committee*

Senator Neale Richmond was elected to Seanad Éireann in April 2016 to the Labour Panel. He is the Fine Gael Spokesperson on European Affairs in the Seanad. Prior to this he served for seven years on Dún Laoghaire Rathdown County Council. First elected to the Council in 2009, he was re-elected in 2014 on the first count. Senator Richmond served for two years as a member of the EU's Committee of the Regions, including a stint as leader of the Irish delegation.

## PANELLISTS

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**Lucinda Creighton**, *@lcreighton*, *CEO of Vulcan Consulting and Former Minister of State for Europe*

Lucinda Creighton is a former Irish Minister for European Affairs and CEO of Vulcan Consulting Ltd. As a member of the Irish

Parliament for nine years, she ran Ireland's Presidency of the Council of the European Union in 2013, and represented the EU in trade talks with the United States, leading to the formal start of TTIP negotiations in 2013. From 2012 to 2014 she also served as Vice President of the European People's Party – the largest political party in Europe.

**Dr Kirsty Hughes**, *@KirstyS\_Hughes*, *@scer\_eu*, *Director of the Scottish Centre for European Relations*

Dr Kirsty Hughes is Director of the Scottish Centre on European Relations. A researcher, writer and commentator on European politics and policy, she has worked at a number of leading European think tanks, including as Senior Fellow at Friends of Europe, Brussels; Senior Fellow, Centre for European Policy Studies; Director, European Programme, Chatham House; Senior Fellow, Policy Studies Institute, and Research Fellow, WZB Berlin Social Science Centre. She has published extensively, including books, reports, and policy papers, as well as contributing to a wide range of national and international media outlets.

**Sebastian Gehrold**, *Senior Adviser to the Brexit Working Group, CDU/CSU Parliamentary Group, at the German Bundestag*

Sebastian Gehrold works as an advisor on European politics for the CDU/CSU parliamentary group. He also manages the CDU/CSU's Working Group on Brexit. From 2009 to 2014, he was at the Federal Chancellery with the Commissioner for Migration, Refugees and Integration. Prior to that, he held positions on regional level in the Land Brandenburg, working for the Interior Minister of Brandenburg and for the CDU parliamentary group in the Brandenburg parliament. He started his career as press spokesman of the CDU/CSU's youth organisation, the Junge Union Deutschlands.

**Dr Katy Hayward**, *@hayward\_katy*, *Reader in Sociology at Queens University Belfast*

Katy Hayward is a Reader in Sociology at Queen's University Belfast, and Fellow in the Senator George J. Mitchell Institute for Global Peace, Security and Justice. She is also a member of the Centre for International Borders Research and on the Steering Group of the Institute of Irish Studies in Queen's. She is a non-executive Board member of Conciliation Resources, the Centre for Cross Border Studies, and the Institute for Conflict Research. Dr Hayward has twenty years' research experience on the impact of the EU on the Irish border and peace process and is the author of over 100 publications.

**Dr Paul Gillespie**, *Member of the IIEA UK Group and Irish Times Columnist*

Dr. Paul Gillespie is a columnist, leader writer and former foreign policy editor for The Irish Times and a researcher with a special interest in Irish-British relations, European integration politics and comparative regionalism. He is an Adjunct Senior Research Fellow at University College Dublin's School of Politics and International Relations. With Dáithí Ó'Ceallaigh he edited the 2015 IIEA book *Britain and Europe: The Endgame – An Irish Perspective*.

**Dr Eve Hepburn** @EveHepburn, @PolicyScribeLtd, Director of PolicyScribe, Edinburgh

Dr Eve Hepburn founded PolicyScribe in 2017 after spending fifteen years in academia. She has held positions at world-leading universities throughout Europe and North America, and was most recently Senior Lecturer in Politics at the University of Edinburgh. Eve has authored nine books and over 40 refereed journal articles on devolved policy-making, European integration and immigration in the UK, Europe and North America. Eve was awarded Edinburgh University's Rising Star award from HRH The Princess Royal for excellence in research.

**Dr Nicolai von Ondarza**, @NvOndarza, @SWP\_Europa, Head of EU/Europe Research Division at the German Institute for International and Security Affairs (SWP)

Dr. Nicolai von Ondarza is Head of the Research Unit EU/Europe at the Stiftung Wissenschaft und Politik (SWP). He previously worked at the Bundeswehr Institute for Social Sciences and the European University Viadrina of Frankfurt Oder. He is currently a lecturer in the Postgraduate Programme European Studies organised jointly by the three Berlin Universities. At SWP, his expertise focuses on governance of the European Union, British EU politics and the EU's Common Security and Defence Policy. Recent publications include "A European Special Relationship. Guiding Principles, Interests and Options for the EU-27 in the Brexit Talks", "The Trouble with Transition. No Off-the-Shelf Arrangement for the UK after Brexit" and "Negotiating with a Dis-United Kingdom. The EU's Options Concerning Northern Ireland and Scotland in the Brexit-Talks".

**John McGrane**, @JohnJMcGrane, @BrlreCham, Director General of the British-Irish Chamber of Commerce

John McGrane is Director General of The British Irish Chamber of Commerce, a private sector organisation which he co-founded in 2011 to represent businesses with interests in the two islands and their economies. He is a retired financial services professional having completed a 40 year career with the Royal Bank of Scotland / Ulster Bank Group in Ireland. He retains active roles in the Cultural, Tourism and Trade Development sectors, having served on a number of related Boards and Government Taskforces.

**Jürgen Matthes**, Head of the Research Unit for International Economics and Economic Outlook, German Economic Institute, Cologne

Jürgen Matthes heads the Research Unit for International Economics and Economic Outlook at the German Economic Institute (Institut der deutschen Wirtschaft Köln – IW), the largest privately financed economic think tank in Germany. Before taking this position in 2015, he held several positions in the IW Köln which he joined in 1995. His economic studies were undertaken in Dortmund and Dublin (1988-1995). Jürgen Matthes has published on a wide range of topics covering Brexit, EMU, current account imbalances in the euro area, protectionism, pros and cons of globalisation, structural economic change, trade policy and the global financial crisis

**Liz McAreavey** @LizMcareaveyECC, CEO @edinchamber, CEO of Edinburgh Chamber of Commerce

Liz McAreavey is the CEO of Edinburgh Chamber of Commerce and has enjoyed an entrepreneurial career spanning 16 years, founding Le Bistro Hospitality, Scotland's largest independent hospitality company. In 2005 Liz joined Deloitte to lead their Brand and Business Development for Scotland. In 2007 she became a Director at Ernst & Young, heading up their Market Leadership Strategy as Business Development Leader UK&I. She joined the Edinburgh Chamber in 2010, becoming Group Commercial Director in 2012 before taking on her current role.

## CHAIRS

**Dr Tobias Lock**, @tobiaslock, codirector @europainstitute Senior Lecturer in EU Law at Edinburgh University

Tobias Lock joined Edinburgh Law School as a lecturer in EU Law in 2013 and was promoted to Senior Lecturer in 2016. He is also a co-director of the Europa Institute. He is a member of the Scottish First Minister's Advisory Group on Human Rights Leadership. Tobias' previous places of work included University College London, the University of Surrey and the University of Erlangen (Germany), where he also received most of his legal education. He is admitted to the German bar as Rechtsanwalt.

**Dáithí O'Ceallaigh**, Chair of the IIEA UK Group and former Irish Ambassador in London

Dáithí O'Ceallaigh is a former Irish diplomat who served as Irish Ambassador in London from 2001-2007. He also served as Ambassador to the UN in Geneva (2007-2009), Ambassador to Finland and Estonia (1993-1998) and Consul General in New York (1987-1993). He was Director General of the IIEA from 2010 to 2013 and continues to Chair its UK Group and sit on its Board of Directors. He is Chair of the Press Council of Ireland and a member of the European Council on Foreign Relations.

**Iain Macwhirter**, @Iainmacwhirter, Political Commentator at the Herald Scotland and Sunday Herald

Iain Macwhirter is the political commentator of The Herald Scotland and the Sunday Herald, an author and documentary film and radio presenter and a former Rector of Edinburgh University. He has worked at both the UK Parliament and Scottish Parliament, presenting the BBC2 programmes Westminster Live, Scrutiny and, from 1999, the BBC TV Holyrood Live programme from the Scottish Parliament.

**Frances Ruane**, Member of the IIEA Board and former Director of the ESRI

Frances Ruane is an Honorary Fellow at Trinity College Dublin and a Research Affiliate at the ESRI. She served as Director of the ESRI from 2006 to 2015, having previously taught in the Dept of Economics at TCD. Earlier in her career she worked at Queens University in Canada and at the Central Bank of Ireland and the IDA. Her current activities include membership of the Executive Committee of the European Statistical Advisory Committee (ESAC), the Council of Economic Advisers in Scotland, and the Scottish Standing Council on Europe.