



**CHAMBERS  
IRELAND**  
IN BUSINESS FOR BUSINESS

# **“Brexit”**

*The UK Referendum on EU Membership*



## *Briefing for Chambers*

### **Introduction:**

Chambers Ireland is Ireland's largest business network creating the best environment for members locally, regionally and nationally.

The following briefing is intended to give members of the Irish Chamber Network an overview of the main issues connected to the "Brexit" referendum campaigns on EU membership as well as the potential impacts for Irish business. This guide can be used internally in Chambers and can be circulated amongst Chamber members.

### **What is Brexit?**

"Brexit" refers to the UK referendum on membership of the European Union, due to take place on Thursday the 23<sup>rd</sup> June and the possible result that the UK may vote to leave.

### **Background to the Referendum**

In January 2013, British [Prime Minister David Cameron](#) gave a speech at Bloomberg's London headquarters outlining his ambition to recast the terms of the UK's membership of the EU.

At the time, the right-wing UK Independence Party (UKIP) was polling strongly, the euro zone was in crisis and there was growing discontent amongst the more Euro-sceptic members of the Conservative party. In his speech, Prime Minister David Cameron promised the British people that, if re-elected as prime minister in 2015, he would hold an In-Out referendum on membership of the European Union. Cameron wanted the UK exempted from the creation of an "ever-closer union" - a guiding principle of European integration since the 1950s - and sought the repatriation of a series of powers to the UK.

When David Cameron's Conservative party unexpectedly won a majority in the 2014 General Election, it was reaffirmed that the UK would hold a referendum before the end of 2017.

## **Negotiations with the EU for Reform**

As promised, the Tory government entered into negotiations with the European Union earlier this year and on the 19<sup>th</sup> February an agreement was reached with the European Union on a series of reforms that David Cameron felt allowed him to recommend the deal to the Conservative party and call for a Remain vote in the promised referendum on EU membership.

On the 20<sup>th</sup> February, a date for the referendum was agreed and was announced as the 23<sup>rd</sup> June 2016.

## **Promised EU Reforms**

- The deal negotiated between the UK and the EU includes an emergency **brake on benefits for migrant workers**. This would give Member States the power to restrict benefits for new migrant workers for up to four years. The benefits can be gradually phased in over a period of four years, as the worker contributes more to his new home through taxation, and the brake will last for a period of seven years, with no option for renewal.
- There is also a 'red card' mechanism, which would **allow a group of national parliaments to object to new EU laws**. It would not give parliaments the power to completely veto unwanted laws. EU lawmakers could still go ahead with the law as long as they make changes to address the concerns raised by the red card.
- The deal also **removes the commitment to an 'ever closer union'** between European countries. This is a symbolic political move and does not change how the EU works, or the powers held by Brussels.
- Child benefits play an important part in the deal; host nations will be permitted to **"index" child benefits to the same rate as in the child's home country**, which would be lower than the UK in most cases. The cut applies initially only to new immigrants, but will be applicable to all existing claimants from January 1st 2020.
- The deal **reaffirms Britain's entitlement not to join the euro** and also bans discrimination against companies and individuals on the basis of the currency

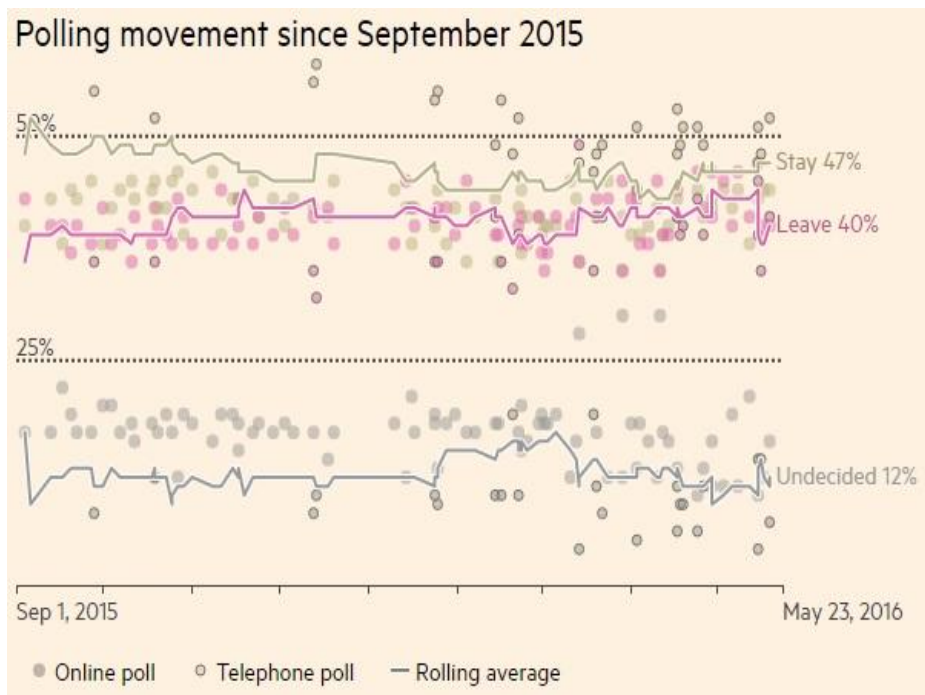
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of their home country. It states that countries outside the Eurozone will not be required to fund Eurozone bailouts, and will be reimbursed for central EU funds used to prop up the Euro, as well as providing for a right for member states to escalate concerns about the impact of Eurozone decisions for urgent discussion in the European Council. The deal also gives the UK more leeway in shaping financial rules for the City of London.

- Finally, the agreement **confirms measures to deny free movement rights to nationals of a country outside the EU who marry an EU national**, as well as action to tackle the use of sham marriages to gain residence rights. Member states' rights to exclude people believed to pose a security risk are also confirmed, even where the individuals affected have no previous convictions

### Lay of the Land- Opinion in the UK

According to research conducted by [NatCen Social Research](#), on polls carried out between 25th April and 3<sup>rd</sup> May, UK voters are evenly split on whether or not to leave the EU. However, as of the 19<sup>th</sup> May, [a Financial Times poll tracker](#) has public opinion on average at 47% Remain and 40% Leave.



### **What about support in Scotland, Wales and Northern Ireland?**

The Scottish National Party and the Welsh nationalists of Plaid Cymru are in favour of the UK staying in. The vote in Scotland, in particular, will be very closely watched.

If the English vote to leave and the Scots are in favour of staying in, it could provoke a constitutional crisis. SNP leader Nicola Sturgeon has said such a split between voters in England and Scotland would trigger “an overwhelming demand” for a second Scottish independence referendum.

It’s a prospect that alarms many politicians in London, with former prime ministers Tony Blair and John Major both warning that the UK could break up if it leaves the EU.

Within Northern Ireland, Sinn Fein, the Alliance Party and the SDLP all favour the UK remaining with the EU, while the DUP have committed to supporting the Leave campaign in the upcoming referendum.

### **What happens if the UK votes to leave?**

If the UK was to be allowed to replicate arrangements the Norwegians or the Swiss have with the EU, the changes for the Republic would be minimal.

However, the relationship would not be negotiated on the UK’s terms or preferences. A vote for Brexit would trigger an application to withdraw under article 50 of the Lisbon Treaty, which provides that the EU will negotiate a new agreement with the withdrawing country over two years. This period can be extended by unanimous agreement. Article 50 also specifies that, when agreeing a new deal the EU acts without the involvement of the country that is leaving, meaning Britain would have little or no say in the relationship it is offered by the remaining 27 member states.

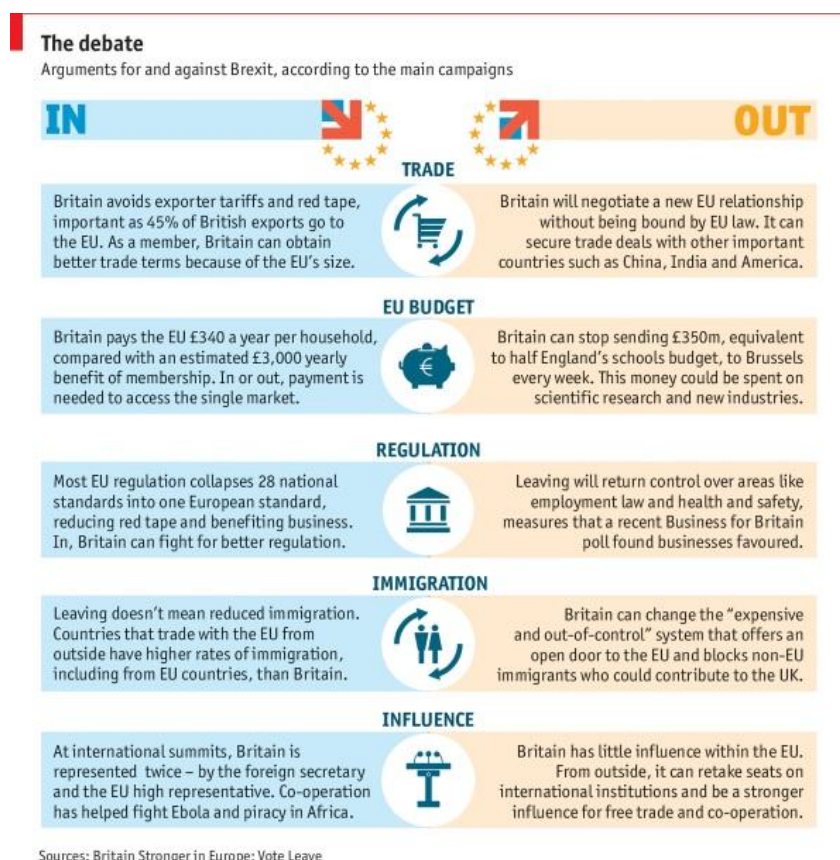
This process is unlikely to yield a result that is favourable to Britain, as the incentive for other EU countries will be to discourage other countries from following on the same path. On the 9<sup>th</sup> May 2016, [Ipsos-MORI published a poll](#) that states nearly half of Europeans want a vote on EU membership. 45% of more than 6,000 people

surveyed in Belgium, France, Germany, Hungary, Italy, Poland, Spain and Sweden said they wanted their own vote, and a third would opt to leave the EU if given the chance.

## Consequences of a British Exit from the EU

The hope of those advocating a Leave vote in the UK referendum would be that the UK could go on to form a relationship with the EU similar to the relationship already in place between other countries outside the EU, including Switzerland, Norway, Iceland and Liechtenstein. These countries have formed a European Free Trade Association ('EFTA') for the promotion of free trade and economic integration. Norway, Iceland and Liechtenstein have a joint European Economic Area ('EEA') Agreement with the EU while Switzerland has signed a set of bilateral agreements with the EU. However, this path is far from certain.

(Graphic [available](#) via the Economist)



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Even if the UK were to remain a full part of the single market, it would have to accept EU regulations without any influence in setting them. It would still have to pay for access to that market, as does Norway, and could not deregulate any more that it can today.

Additionally, while the UK, would have more freedom and control over making trade agreements, it is likely that it would struggle to negotiate the same access for goods and services as it currently has under existing EU free trade agreements. US President Barack Obama has already stated that the US would not be interested in negotiating a trade deal with the UK separate to the Transatlantic Trade and Investment Partnership. Japanese Prime Minister Shinzo Abe has also gone on the record stating the UK would be less attractive to Japanese investors should an exit from the EU take place.

A report from [Global Counsel](#) on the impact of a Brexit on the EU and the UK, outlines five distinct models that may define future relationship with the EU should the UK choose to leave. (See table below)

<b>Norwegian-style EEA agreement</b>	<p>The UK joins the European Economic Area and maintains full access to the single market, but must adopt EU standards and regulations with little influence over these. The UK still makes a substantial contribution to the EU budget and is unable to impose immigration restrictions.</p> <p><b>Verdict: does not address UK political problems with the EU</b></p>
<b>Turkish-style customs union</b>	<p>Internal tariff barriers are avoided, with the UK adopting many EU product market regulations, but sector coverage of the customs union is incomplete. The UK is required to implement EU external tariffs, without influence or guaranteed access to third markets.</p> <p><b>Verdict: a bad compromise for the UK</b></p>
<b>FTA-based approach</b>	<p>The UK is free to agree FTAs independently and the UK's relationship with the EU is itself governed by an FTA. Tariff barriers are unlikely, but as with all FTAs the UK will need to trade off depth - which means agreeing common standards and regulation - with independence.</p> <p><b>Verdict: possible, but it all depends on the deal</b></p>
<b>Swiss-style bilateral accords</b>	<p>The UK and the EU agree a set of bilateral accords which govern UK access to the single market in specific sectors. Concern in Brussels about cherry picking may limit the sectors. The UK becomes a follower of regulation in the sectors covered, but negotiates FTAs separately.</p> <p><b>Verdict: possible, but may not be attractive to the EU</b></p>
<b>MFN-based approach</b>	<p>No need to agree common standards and regulation, but at the expense of facing the EU's common external tariff, which damages UK trade with the EU in goods as well as services. Non-tariff barriers may emerge over time to damage trade in services in particular.</p> <p><b>Verdict: inconsistent with the UK's liberal approach to trade</b></p>

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The overall impact of a British exit on the EU at this point would be hard to quantify. Studies however, have identified that the uncertainty that would exist should the UK choose to leave the EU would be damaging to both the UK and to the wider European Union.

The potential departure of the UK from the EU would also likely have a negative impact of the dynamic of the EU. Some of the tensions that exist within the UK also exist in other Member States. If the UK leaves, adopts a more independent policy in sensitive areas, and is seen to succeed, this could have far-reaching political ramifications for the rest of Europe.

### **Main Impact of Brexit on Ireland**

With regard to the impact of a Brexit on Ireland, at this point nobody is certain what the impact would be. Given the close economic and political ties between Ireland and the UK and the uncertainty that a British exit would bring about, the Irish government has taken a strong public position highlighting their preference for the UK staying within the EU.

Much economic analysis has been dedicated to highlighting the risks and negative consequences that would face Ireland should the UK vote to leave the European Union.

- First and foremost, Ireland has very close trade and economic links with the UK and so would be greatly impacted by a “Brexit”. Those trading with the UK, at a minimum, would face increased administrative and regulatory costs and possibly tariffs. A recent [ESRI report](#) suggests that there could also be a significant decline in bilateral trade. Sectors such as agriculture, retailing, energy and financial services are likely to be most impacted by “Brexit”. Irish SMEs would also be significantly impacted should the UK vote to leave the EU.
- It would also pose **major problems for large retailers** and other companies that treat Ireland and the UK as one market for goods distribution, sales, accounts and business administration. Brexit would have serious implications for the Irish agri-sector in particular, as the UK takes around 35% of Ireland’s food exports.



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- The likely **weakening of sterling** as a result of Brexit would also negatively impact our competitiveness vis-à-vis the UK.
- Another area at risk should a Brexit take place would be our energy security. Ireland imports 89% of its oil products and 93% of its gas from the UK. The **energy networks themselves are also closely linked**. There is also a single, all-island electricity market, which functions via a north-south connector. The Irish electricity and gas grids are also bound to the British grids through interconnectors. These links improve security of supply as well as reduce energy prices in Ireland, because British wholesale electricity prices are lower than those here. If the UK were to leave the EU, energy security would most likely be negatively affected.
- Crucially, the **border with Northern Ireland** would become an external EU land border post Brexit. This could give rise to all sorts of issues in terms of customs posts, passport controls etc, depending on the extent to which Brexit impacted the movement of goods, services and people between the UK and EU. A Brexit could open the possibility of restrictions on people moving between Britain and Ireland for work. And given that the EU's only land frontier with the UK would be in Ireland, it could also mean the reintroduction of passport controls at the border. Should this come to pass, such a prospect would severely impact North-South cooperation, both economically and politically, which has developed in many areas since the Belfast Agreement. If this did come to pass the economies of border regions both in the Republic of Ireland and in Northern Ireland would be severely impacted.
- Additionally, while it may be in the interests of Ireland to support the UK in getting the best possible deal with the EU should the vote to leave in order to ensure as little disruption to our economic affairs as possible, [Dan O' Brien in a recent opinion](#) piece noted that giving Britain a deal that has all the benefits of EU membership but none of the costs would not be in our interests as it would **enable the UK to undercut Ireland** as an investment location by freeing it from EU rules which prohibit giving subsidies to companies.
- Last of all, the prospect of the UK leaving the EU would force Dublin to rethink how it positions itself within the union. Both Ireland and the UK have found common cause on free trade, taxation, the internal market, financial

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services and justice and home affairs - issues on which the two governments are frequently staunch allies. A British departure could see Ireland **lose a valuable ally in the EU**, which could result in more pressure being put on Dublin to raise its corporate tax rate, as one example. Conversely, there are also those who say that a shift in the dynamics of the EU may force Ireland to forge closer alliances with France and Germany and adopt a less Anglo-centric stance in world affairs.

### **Are there any opportunities for Ireland?**

One area in which Ireland could benefit from Brexit is foreign direct investment, as it would be the only English speaking country left in the EU that could act as a gateway to the Single European Market. The UK would become much less attractive to foreign direct investment that required access to EU markets. Ireland could attract some firms, most notably in the financial services sector, that are located in the UK but need to maintain a presence in the EU or access to EU markets.

However, this is a double-edged sword as some Irish firms could be tempted to relocate part of their operations to the UK, if it is their main market.

### **What is Chambers Ireland doing on behalf of our Network?**

- Chambers Ireland is a member of the Brexit Working Group within the British Irish & Northern Ireland Affairs Division of the Department of the Taoiseach
- We also regularly brief our colleagues in Eurochambres on the risk of Brexit to wider European economic stability.
- Chambers Ireland is engaged in ongoing dialogue with the British Chambers of Commerce and the Northern Irish Chamber of Commerce on the potential impacts of Brexit on our members
- Supporting our strategic partner, [European Movement Ireland's campaign](#) (#PhoneAFriend) to encourage Irish people in the UK and British people in Ireland to register to vote in the upcoming referendum

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- Outside of the Brexit debate, we continue to work with our colleagues in Brussels to ensure that the interests of Irish business are represented at EU level. We campaign on a variety of issues such as
  - Improving access to Internal Market for business
  - Cutting red tape and ensuring better regulation
  - Helping SMEs to trade internationally
  - Promoting trade and investment

### **More Information:**

For more information on the UK Referendum on EU membership, please contact Chambers Ireland directly or see the following resources;

[MerrionStreet.ie](http://MerrionStreet.ie)

[Institute of International and European Affairs](#)

[European Movement Ireland](#)

[British Irish Chamber of Commerce](#)