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The EU referendum and potential implications for Northern Ireland

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This paper examines the debate surrounding the EU referendum and the potential implications of that vote on Northern Ireland, focusing on trade and investment.

Paper 21/16 **21 January 2016**

Key Points

This paper examines the debate surrounding the EU referendum and the potential implications of that vote on Northern Ireland. The focus of the paper is on trade and investment.

A referendum on the UK's membership of the EU is to take place before the end of 2017 during which voters will be asked: *'Should the United Kingdom remain a member of the European Union or leave the European Union?'*

The trade data examined in this paper shows that the EU is Northern Ireland's largest export market. The balance of trade data in the same section highlights that Northern Ireland exports more to the EU than it imports from it. The UK as a whole imports more from the EU than it exports to it.

Data on foreign direct investment in the UK shows that whilst the FDI inflows from the EU into the UK have varied considerably on a yearly basis, the value of EU FDI stock has been relatively more predictable, fluctuating between 47% and 53% of total FDI stock value. Evidence gathered by the House of Commons Library suggests that opinions on the importance of the UK's membership of the EU to attracting FDI are mixed.

At the time of writing, there are only a limited number of reports available that focus on the implications for Northern Ireland of a UK withdrawal from the EU. The debate at regional level is at an early stage, with important contributions from Oxford Economics and the Northern Ireland Affairs Committee anticipated.

The paper concludes by positing a number of questions the Committee for Enterprise, Trade and Investment may wish to consider as the debate on the EU referendum evolves. These include:

- How well will Northern Ireland exporters and the Northern Ireland economy as a whole be able to absorb any increase in tariffs or reduction in exports in a post-EU environment?
- How will the UK government ensure that different regional trade positions are reflected in any future trade negotiations with the EU in the event of a Leave vote?
- Will Northern Ireland's decision to reduce its rate of corporation tax outweigh or be undermined by changes to its access to the single market?

Executive Summary

The European Union Referendum Act commits the UK Government to holding a referendum on the UK's membership of the EU before the end of 2017.

The referendum question will be: *'Should the United Kingdom remain a member of the European Union or leave the European Union?'*

This paper examines the debate surrounding the EU referendum and the potential implications of that vote on Northern Ireland. The focus of the paper is on trade and investment.

Debate at UK level

At UK level the debate is being led by four campaign groups, with two campaigning on the 'Leave' side and two on the 'Remain' side. The Electoral Commission requires that one campaign group is designated as the lead group on either side of the debate. At the time of writing this has not taken place.

Those on the 'Remain' side of the debate emphasise the uncertainty of what will replace the UK's current trading relationship with the EU should the electorate vote to leave and stress shortcomings in these alternative arrangements. They note that the UK currently benefits from trade agreements with third countries, secured through its EU membership, which will not be inherited by the UK upon exit. They argue that growth, jobs and investment would be harmed should the UK exit the EU and challenge the perception that EU regulation is harming the UK.

Those on the 'Leave' side of the debate contest that the EU is economically weak and too bureaucratic to respond to global challenges. They argue that the UK's global influence would be improved outside of the EU through World Trade Organisation (WTO) membership and through negotiating bilateral deals with trade partners. Furthermore, they suggest that the EU is too expensive and that money sent to the EU by the UK could be better spent domestically.

Trade and Investment data

Section 3 of this paper examines UK and NI trade data. It compares trade with the EU to trade with the non-EU countries. This analysis highlights some significant differences between the nature of Northern Ireland and the UK's trading relationships with the EU. Specifically it finds:

- The value of UK exports to the EU grew by 28% between 2004 and 2014, while the value of exports to non-EU countries grew by 40%. In the same period, the value of Northern Ireland's exports grew by 28%, while the value of non-EU exports grew by 25%. Growth in the value of Northern Ireland's exports to the EU has matched that of the UK as a whole. This is not true of exports to non-EU countries from Northern

Ireland, the value of which has grown by a considerably smaller percentage than the UK as a whole.

- In the most recent three years for which data is available there has been a convergence in the value of EU and non-EU exports from the UK. In these years both markets have contributed approximately 50% to total export value. For Northern Ireland the split has been approximately 60:40 in favour of EU exports over the period examined. This suggests Northern Ireland is more reliant on EU exports than the UK as a whole, and could therefore be more exposed to changes in single market access.
- Import data shows a growth in the value of EU into UK of 40% over the period, whilst the value of non-EU imports grew by 38%. In the same period, the value of EU imports into Northern Ireland grew by 32%, whilst the value of non-EU imports grew by 41%.
- In both regions the proportional contribution of EU imports to total import value has been consistently greater than the proportional contribution on non-EU imports.
- Looking at the balance of trade between Northern Ireland and the EU shows that in all but one year Northern Ireland has sold more to the EU than it has bought from it. In contrast the UK has consistently imported more from the EU than it has exported to it.

An examination of UK FDI data shows that the value of EU FDI stocks in the UK has more than doubled between 2005 and 2014. Over the period the value of EU FDI stock has fluctuated between 47% and 53% of total FDI stock value.

Evidence gathered by the House of Commons Library suggests that opinions on the importance of the UK's membership of the EU to attracting FDI are mixed.

Northern Ireland debate

At the time of writing, there are only a limited number of reports available that focus on the implications for Northern Ireland of a UK withdrawal from the EU. The debate at regional level is at an early stage, with important contributions from Oxford Economics and the Northern Ireland Affairs Committee anticipated.

Of the available contributions, the joint Queen's University Belfast and University College Cork paper does not present arguments for either side of the debate; rather it seeks to further debate by raising questions on a variety of topics. From a trade and investment perspective it notes:

- The UK's EU membership provides Northern Ireland access to a single market of 500 million people;
- The EU is Northern Ireland's largest export market;
- Exports to the Republic of Ireland account for 37% of exports to the EU and 21% of total exports;

- The EU has signed trade agreements with most European and Mediterranean nations, as well as South Korea and countries in Central and South America. Trade negotiations are on-going with the USA and China.
- The free movement of workers has *'provided a welcome economic boost to many cities and towns'* but has led to challenges for public sector providers.

Analysis has been carried out by ETI Committee Specialist Advisor, Dr Leslie Budd of the Open University Business School, on 'The Consequences for the Northern Ireland Economy from a United Kingdom exit from the European Union'.

Dr Budd's analysis estimates that impact of a UK exit from the EU would be a 3% reduction in Northern Ireland's GDP and argues that this would lead to proportionate increases in unemployment.

In this analysis, three interlinked economic drivers are negatively impacted by the UK's withdrawal from the EU, which will in turn negatively impact regional growth: cross-border trade and economic cooperation: FDI**;** and the loss of economic development funding programmes.

The analysis also identifies *'very large transactions costs associated with a BREXIT'.* For Northern Ireland these include, the undermining of corporation tax harmonisation with the Republic of Ireland, increasing cost of cross-border trade and cooperation, and a detrimental impact on FDI.

The view from the Republic of Ireland (RoI)

In recent speeches, the Taoiseach, and the Minister for Foreign Affairs and Trade, Charlie Flanagan, have expressed their desire to see the UK remain within the EU. Both have emphasised the trade, investment and tourism links of both countries.

Research carried out by the Economic and Social Research Institute found that a UK exit from the EU would significantly reduce bilateral trade between the two countries. It is estimated that the resultant reduction in trade could be as high as 20%, although significant sectoral variation was expected. Agriculture, Food and Beverages and Basic Metals were identified as particularly vulnerable sectors.

The study also concluded that should it leave the EU, the UK would be less attractive as an FDI destination due to reduced access to the single market. Moreover a reduction in UK FDI would negatively impact UK growth and could also impact RoI growth. It did not anticipate that the RoI would benefit greatly from increased FDI due to the UK becoming less attractive as an investment location.

An earlier inquiry by the Oireachtas Joint Committee on European Union Affairs also emphasised the significant trade links between the UK and the RoI, particularly highlighting the reliance of the RoI agri-food sector on the UK market. It noted the importance of UK tourism in the RoI and highlighted the value of RoI FDI stock in the UK and UK FDI stock in RoI.

Questions

The paper concludes by positing a number of questions the Committee for Enterprise, Trade and Investment may wish to consider as the debate on the EU referendum evolves. These include:

- How well will Northern Ireland exporters and the Northern Ireland economy as a whole be able to absorb any increase in tariffs or reduction in exports in a post-EU environment?
- What is the potential for increasing exports to non-EU countries and will this be sufficient to counter balance any reduction in EU exports resulting from changes to single market access?
- How will the UK government ensure that different regional trade positions are reflected in any future trade negotiations with the EU in the event of a Leave vote?
- To what extent is Northern Ireland’s attractiveness as a destination for FDI predicated on its access to the single market?
- Will Northern Ireland’s decision to reduce its rate of corporation tax outweigh or be undermined by changes to its access to the single market?

Contents

1 Introduction

The European Union Referendum Act 2015[1], which commits the UK to holding a referendum on the UK's membership of the EU before the end of 2017, received Royal Assent on 17 December 2015.

The Act states that the question to appear on the ballot paper will be as follows:

> *Should the United Kingdom remain a member of the European Union or leave the European Union?*[2]

The following paper, prepared for the Committee for Enterprise, Trade and Investment, provides an overview of the debate surrounding the EU referendum, focussing on the implications on trade and investment for Northern Ireland. Specifically the paper:

- Summarises the arguments put forward at UK level by the 'Leave' and 'Remain' campaign groups;
- Examines data on UK and Northern Ireland trade with the EU and data on EU FDI in the UK;
- Summarises the debate arising from within Northern Ireland; and
- Summarises the debate arising from within the Republic of Ireland.

The paper concludes by positing a number of questions the Committee may wish to consider, as debate around the EU referendum evolves.

2 Debate at a UK level

At a UK level, debate on the EU referendum is currently being led by four campaign groups. Making the case for the 'leave' side these are 'Vote Leave' and 'Leave.EU'. On the 'remain' side, two groups, 'Britain Stronger in Europe' and 'British Influence', are advancing arguments supporting the UK's continued membership of the EU.

Electoral Commission guidance states that only one *'lead campaign group can represent each side of the referendum debate'* and requires that groups apply for designation. At the time of writing no groups have been designated as lead group on either side of the debate. Table 1 provides a brief outline of the arguments put forward by all four groups, focusing on trade and investment.[3]

Those on the Remain side emphasise the uncertainty of what will replace the UK's current trading relationship with the EU and stress shortcomings in these alternative arrangements. Moreover, they note that the UK currently benefits from trade

[1] The European Referendum Act 2015 http://www.legislation.gov.uk/ukpga/2015/36/contents/enacted

[2] *Ibid* s1(4)

[3] The Electoral Commission, Situations and Procedures, the Designation Process (08 January 2015) http://www.electoralcommission.org.uk/__data/assets/pdf_file/0005/194594/Designation-process-for-the-EU-referendum.pdf

agreements with third countries, secured through its EU membership. These agreements will not be inherited by the UK upon exit; rather the UK would be required to renegotiate these deals bilaterally.[4] They argue that growth, jobs and investment would be harmed should the UK exit the EU and challenge the perception that EU regulation is harming the UK (see Table 1 for details).

On the question of what the UK's relationship with the EU will look like post referendum, should the UK electorate vote to leave, those on the Remain side argue that the existing models for such a relationship will not adequately satisfy those on the Leave side. There are a number of possible outcomes considered:

- **The Norwegian Model:** Norway is a member of the European Free Trade Association (EFTA) and the European Economic Area (EEA). This provides the country full-access to the single market, including access for financial services. However, the country has been required to accept freedom of movement and must implement EU directives[5]. Norway is the tenth highest contributor, per head to the EU budget (the UK is ninth)[6], but has no influence over EU regulations and is unable to independently agree free trade agreements with third countries.[7]
- **The Swiss Model:** Switzerland is a member of EFTA, but is not a member of the EEA. Its access to the Single Market is secured through bilateral agreements. This does not include access for financial services.[8] Switzerland is required to accept EU regulation, notably economic regulation the free movement of people and employment regulation. It does not, however, play a role in shaping this legislation. According to the House of Commons Library, its contributions to the EU are approximately £420m per year in total, or £53 per capita (the UK's gross contribution is £15,356m in total, or £243 per capita, its net contribution is £8,102m in total, or £128 per capita).[9]
- **World Trade Organisation:** Britain Stronger in Europe argues that should the UK leave the EU without a free trade agreement in place and choose to trade on World Trade Organisation terms, it would be subject to 'Most Favoured Nation' (MFN) tariff rates. They argue that, based on the value of the UK's exports of goods to the EU in 2014 (£220bn), the cost of MFN tariffs would be £11.3bn – equivalent to £176 per

[4] Britain Stronger in Europe, Britain out of Europe, your family out of pocket (17 December 2015) https://d3n8a8pro7vhmx.cloudfront.net/in/pages/31/attachments/original/1450344919/PDF_Out_of_Pocket.pdf?1450344919

[5] British Influence, BREXIT: What would happen if the UK voted to leave (December 2015) https://view.publitas.com/british-influence/brexit-what-would-happen-if-the-uk-voted-to-leave/page/1

[6] Britain Stronger in Europe, Britain out of Europe, your family out of pocket (17 December 2015) https://d3n8a8pro7vhmx.cloudfront.net/in/pages/31/attachments/original/1450344919/PDF_Out_of_Pocket.pdf?1450344919

[7] British Influence, BREXIT: What would happen if the UK voted to leave (December 2015) https://view.publitas.com/british-influence/brexit-what-would-happen-if-the-uk-voted-to-leave/page/1

[8] *Ibid*

[9] House of Commons Library, Leaving the EU (1 July 2013) http://researchbriefings.files.parliament.uk/documents/RP13-42/RP13-42.pdf

person, or £426 per household.[10] The House of Commons Library has noted that *'MFN tariffs would be imposed on around 90% of the UK's goods exports to the EU by value'*, though the *'implications of a move to an MFN trading arrangement for exporters and domestic consumers would vary considerably by sector'.*[11]

- **Free-trade agreement:** the UK could enter into a bespoke free-trade agreement with the EU. Those on the Remain side question why the *'remainder of the EU would be willing to give the UK a unique, generous deal, which has never before been offered to a country outside the EU'.*[12]

Those on the Leave side contest that the EU is economically weak and too bureaucratic to respond to global challenges. They argue that the UK's global influence would be improved outside of the EU through having a voice on the World Trade Organisation (WTO) and by being able to negotiate its own deals with trade partners. Furthermore, they suggest that the EU is too expensive and that money sent to the EU by the UK could be better spent. On trade and investment, the Leave side have put forward the following arguments (further details are provided in Table 1):

- **The EU's economy is in decline:** Leave.EU notes that EU GDP as a share of global GDP has reduced from 37% in 1973 to less than 20% currently. [13] Vote leave state that within the EU *'in some places unemployment is 25 per cent and youth unemployment over fifty per cent, the worst situation since the 1930s'.* They also highlight the region's mounting debts and *'unfunded pension systems',* the funding of which will require *'large tax increases, immigration increases, or both'.*[14]
- **UK trade with non-EU countries is increasing:** Leave.EU argues that UK *'exports to the rest of the world are growing nearly three times as fast as the UK's exports to the EU'* and that the UK's *'three fastest growing export markets are outside the EU'.*[15]
- **A UK outside of the EU would have greater influence:** the EU currently sits on the World Trade Organisation (WTO) on behalf of the EU. Should the UK leave, it would be able to regain a seat on the WTO. This, Vote Leave argues, would enable the UK to use its *'stronger international influence to work for closer international cooperation'.*[16] Leave.EU argues that the EU has become an *'uncompetitive trading bloc',* that its trade deals *'with Japan, India and UAE have all either been suspended or are barely moving'.* In their view, a UK outside of the EU would have the freedom

[10] Britain Stronger in Europe, Britain out of Europe, your family out of pocket (17 December 2015) https://d3n8a8pro7vhmx.cloudfront.net/in/pages/31/attachments/original/1450344919/PDF_Out_of_Pocket.pdf?1450344919

[11] House of Commons Library, Leaving the EU (1 July 2013) http://researchbriefings.files.parliament.uk/documents/RP13-42/RP13-42.pdf

[12] British Influence, BREXIT: What would happen if the UK voted to leave (December 2015) https://view.publitas.com/british-influence/brexit-what-would-happen-if-the-uk-voted-to-leave/page/1

[13] Leave.EU, Leaving the EU would give the UK the freedom to make its own global trade deals http://leave.eu/en/the-facts/on-global-trade

[14] Vote Leave, Our Case http://www.voteleavetakecontrol.org/our_case

[15] Leave.EU, Leaving the EU would give the UK the freedom to make its own global trade deals http://leave.eu/en/the-facts/on-global-trade

[16] Vote Leave, Our Case http://www.voteleavetakecontrol.org/our_case

to negotiate its own free trade deals. They cite Australia, South Korea and Japan as examples of *'thriving economies that conduct trade policy on a bilateral basis, rather than joining free trade zones'.*[17]

- **The UK's contributions to the EU could be more appropriately spent by the UK itself:** Vote Leave argues that UK has paid over £150bn to the EU budget over the past decade, equivalent to £350m per week. This they state is *'about half the English schools budget, four times the Scottish schools budget, four times the science budget and about 60 times what we spend on the NHS cancer drugs fund'.*[18]

[17] Leave.EU, Leaving the EU would give the UK the freedom to make its own global trade deals http://leave.eu/en/the-facts/on-global-trade

[18] *Ibid*

Table 1: Summary of arguments of the Leave and Remain side of the EU referendum debate

	Britain Stronger in Europe	Vote Leave	
Remain	• **No certainty as to what will the UK's deal with the EU look like post exit:** *'The Leave campaigns cannot tell us what 'out' looks like. They have advocated the 'Norway' and 'Switzerland' models, but both would reduce Britain's control over our own economic affairs, making us pay in to the EU budget and accept EU rules with no influence over them. We would pay, but have no say. They have now suggested a new Free Trade Agreement (FTA) of unprecedented terms that is not in the EU's interests, but with no detail on how it could be achieved*.' • **Potential loss of trade, jobs and investment:** *'The trade, jobs and investment linked to Britain being in Europe are the equivalent of an average £3,000 a year to each household. Studies have shown that three million jobs are linked to Britain's trade with the EU, and that further development of Europe's single market could deliver 800,000 additional jobs in Britain by 2030. And the UK is the largest recipient of inward investment in the EU, which is due to our access to the single market.'* • **Potential for price rises due to trade tariffs:** *'If Britain were to leave Europe with no trade deal, we would move to trading with the EU according to World Trade Organisation rules. One consequence of this would be Britain facing new tariffs on our imports of goods from the EU. Under this arrangement the additional cost of EU goods imports would be £11 billion... The £11bn cost for British businesses and families would be £176 for every person and £426 for every household in Britain.'*	• **The EU is too slow and bureaucratic***: 'it suffers low growth, high unemployment, a dysfunctional euro and culture that is not friendly to technology and entrepreneurs'*. • **The EU is costly:** the UK *'sends over £350 million to the European Union each week*', money which could be spent on 'scientific research and the NHS'. • **EU regulations cost UK businesses:** the current annual cost of EU regulation to the UK economy is €33.3bn. • **Trade deals:** the EU should *'stop blocking non-euro countries from making trade deals outside of Europe'*. A UK outside of the EU would have greater control over international trade and could have its own seat on the WTO. 74% of Britain's SMEs think the British Government, not the EU, should control the UK's trade policy'. • **The UK's voice in the EU is diminishing:** the UK's vote share in the Council of Ministers has decreased from 17% in 1973, to 8% today. The UK has unsuccessfully attempted to block motions before the council 72 times.	**Leave**

Remain	British Influence	Leave.EU	Leave
	• **Leaving the EU would lead to a loss of GDP:** estimates range include: Open Europe's best case scenario of 1.6% GDP gain or a worst case 2.2% loss; the Centre for Economic Performance, LSE best case 2.2% loss, or worst case 9.5% loss; and Bertelsmann Stifftung best case 0.6% loss and worst case 14% loss. • **Regulation:** *'The EU is often blamed for burdening business with excessive regulation yet the World Bank finds that the UK is sixth out of 189 countries globally for ease of doing business. What is this red tape that is holding the UK plc back? And if it is such a burden, why is it not preventing German companies from trading so successfully inside and outside the EU, when that country is listed at number 15 in the ease of business index?* • **Trade deals:** The EU has over 50 trade deals with third countries and it is negotiating more. Countries such as Switzerland and Iceland, who have negotiated trade deals with China as independent countries have found that these deals *'are one-sided and favour China'.* • **Free Movement of Workers:** UK businesses recruit skilled labour from EU. The EU may not offer UK a favourable trade deal without securing continued free movement. • **Alternatives to EU membership have drawbacks:** EFTA/EEA countries, Norway for example, pay into the EU, have to implement EU law but have no influence. Leaving the EU and joining EFTA would reduce trade with EU members by 25% over time. The Swiss option of bilateral trade agreements is *'time consuming and complex'* Switzerland has over 100 bilateral agreements in place, with each having to be negotiated. If Britain were to take this option it would not inherit the EU's bilateral trade agreements but would have to renegotiate trade deals with non-EU countries from scratch. The WTO option would see the UK not signing a trade deal with the EU, rather relying on its WTO membership. This would *'leave the UK isolated in international trade negotiations and subject to the EU's external tariffs'.* A UK-EU free-trade agreement will be reliant on the *'goodwill'* of EU members.	• **The EU is in economic decline***: 'with a relatively shrinking and ageing population'* and when the UK joined in 1973 'the EEC accounted for 37% of World GDP' compared to 20% today. • **The EU is slow moving:** the UK's membership of the EU prevents the country from *'taking full advantage of a surging global economy'.* • **UK exports to non-EU states are growing:** the UK's three fastest growing export markets are outside the EU. • **Trade deals:** Leaving the EU would enable the UK to negotiate its own free trade deals. EU trade deals with major economies such as Japan, India and the UAE have been suspended or are *'barely moving'.* • **World Trade Organisation:** leaving the EU would enable the UK to have its own seat on the WTO increasing its global influence. • **Bilateral trade:** Australia, South Korea and Japan are thriving economies that conduct trade policy on a bilateral basis, rather than joining free trade zones.	

3 Trade data

This section examines data on UK and Northern Ireland trade with the EU. The figures below present ten year trade trends (2004 to 2014, latest full year data available) and are sourced from HMRC's UK Trade Info database.[19]

Figure 1 compares the value of UK exports to the EU with exports to non-EU countries. In 2014, the value of UK exports to the EU was £146.48bn; whereas exports to non-EU countries were valued at £140.46bn (total exports were valued at £286.96bn). Over the period, UK the value of exports to the EU has increased by 28%. In the same period, the value of exports to non-EU nations has increased by 40%. The value of exports to the EU has been greater than that of exports to non-EU regions in each year, although there has been a convergence in recent years.

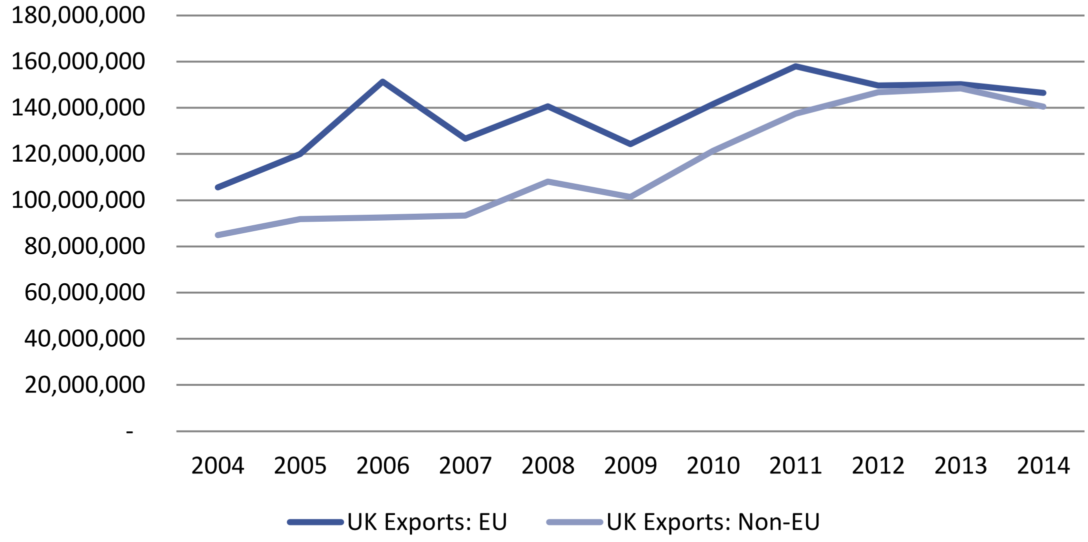
Figure 2 examines this in more detail. It shows the proportionate contribution to total export value of both EU and non-EU exports. In the three most recent years for which data is available the split has been close to 50-50: in 2012, EU exports equalled 50.5% of total exports, while non-EU exports equalled 49.5%; in 2013 50.3% of export value was to the EU, with 49.7% to non-EU; and in 2014, 51% of export value was to the EU compared with 49% to non-EU. Commenting on UK exports, the House of Commons Library state that the:

> *..decline in share of exports going to the UK over the past decade is not surprising. Apart from the much more rapid population and output growth witnessed over the past decade in emerging economies, external trade barriers have been reduced over this period too. Since 2000, the EU has concluded free trade agreements with Mexico, South Africa, Chile and South Korea, while, arguably more importantly, many economies have taken unilateral action to lower tariffs and liberalise trade.*[20]

[19] HMRC, UK Trade Info, RTS Data (extracted 13 January 2016) https://www.uktradeinfo.com/Statistics/BuildYourOwnTables/Pages/Table.aspx

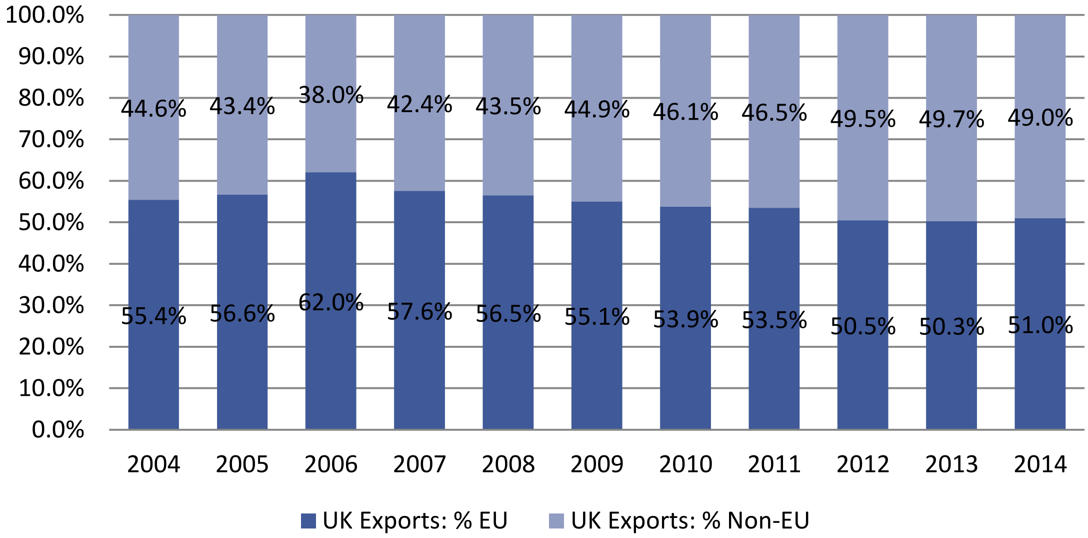
[20] House of Commons Library, Exiting the EU: impact in key UK policy areas (4 June 2015) http://researchbriefings.files.parliament.uk/documents/CBP-7213/CBP-7213.pdf

Figure 1: UK Exports to EU and Non-EU countries 2004 to 2014 (£000s)



Source: HMRC – Trade Info

Figure 2: UK exports to EU and non-EU countries, percentage of total exports, 2004-2014

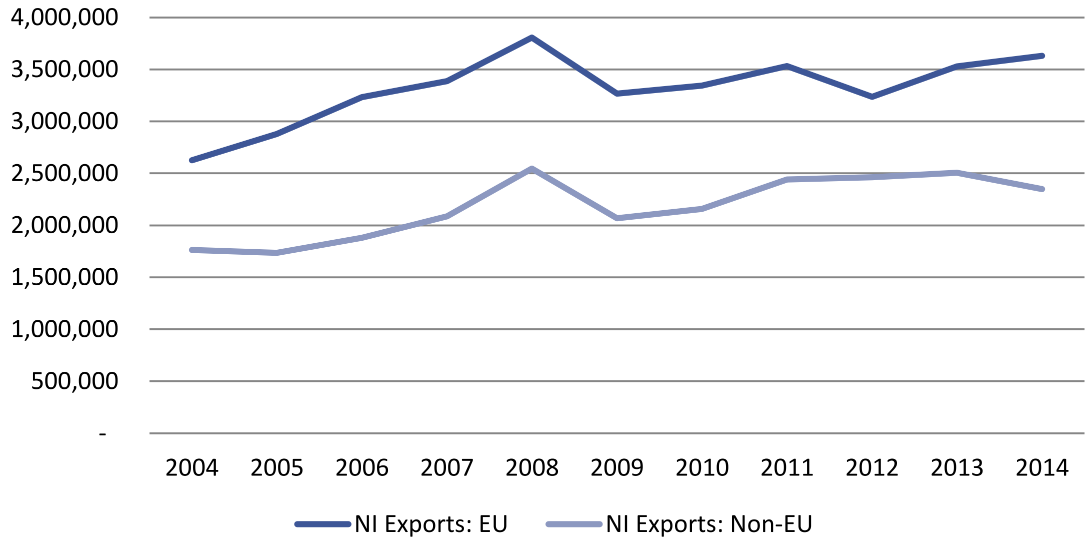


Source: HMRC – Trade Info

Figures 3 and 4 present similar data for Northern Ireland. In 2014, Northern Ireland exports to the EU were valued at £3.63bn; compared to non-EU exports which were valued at £2.35bn (total exports were valued at £5.978bn). Over the period, the value of Northern Ireland's exports to the EU has increased by 28%, whilst the value of exports to non-EU countries increased by 25%. Growth in the value of Northern Ireland's exports to the EU has matched that of the UK as a whole. This is not true of exports to non-EU countries from Northern Ireland, the value of which has grown by a considerably smaller percentage than the UK as a whole.

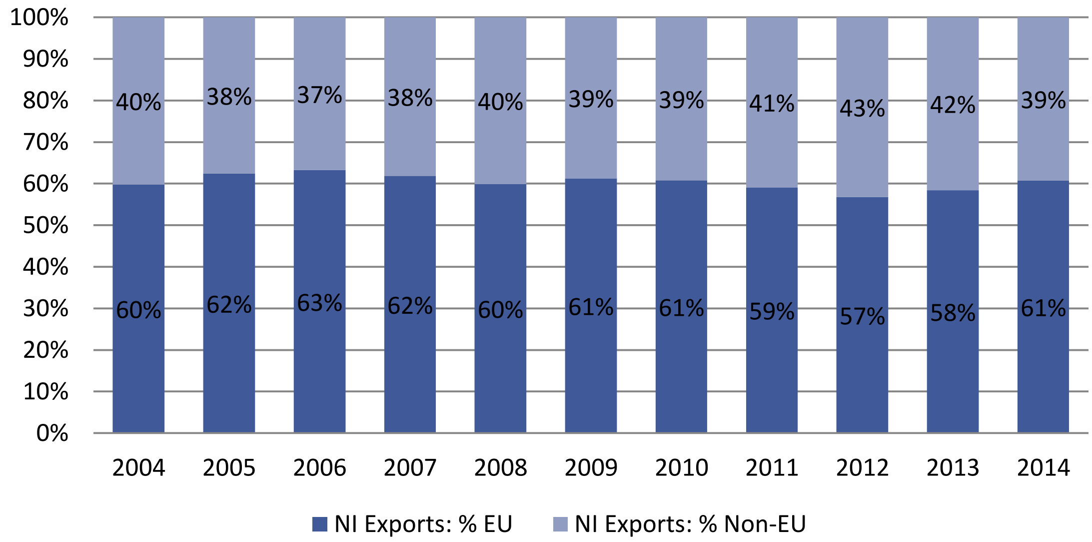
Unlike the rest of the UK, there has been no convergence between the two values. The EU, non-EU split has remained approximately 60:40 in favour of the EU over the period. This is outlined in greater detail in Figure 4. From this it is possible to conclude that Northern Ireland is more reliant on the EU as an export market than the UK as a whole and that the region could be more exposed should this market access be restricted in the event of the UK exiting the EU.

Figure 3: NI Exports to EU and Non-EU countries 2004 to 2014 (£000s)



Source: HMRC – Trade Info

Figure 4: NI exports to EU and non-EU countries, percentage of total exports, 2004-2014

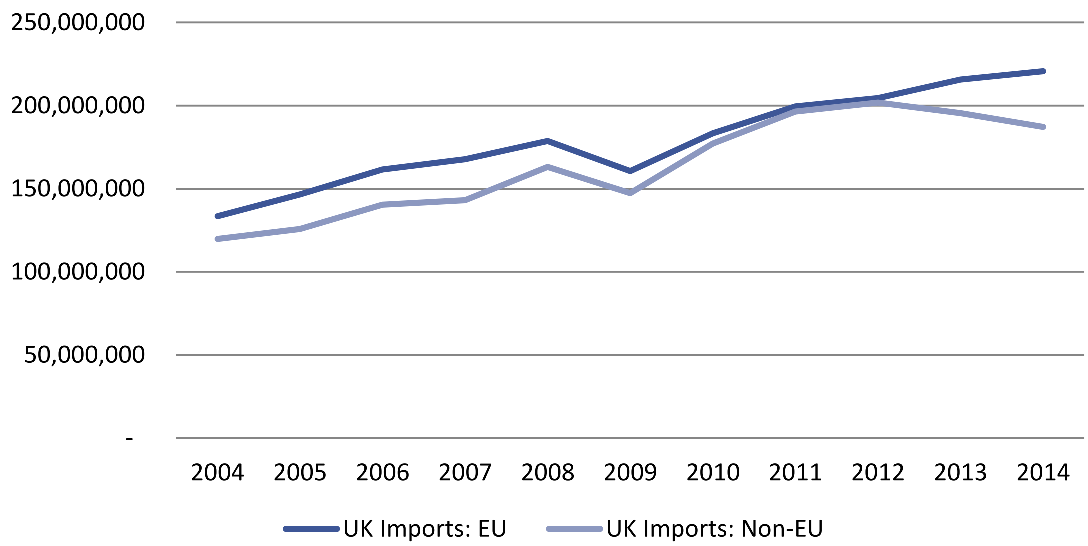


Source: HMRC – Trade Info

Figure 5 plots changes in the value of UK imports from the EU and non-EU countries over the period 2004 to 2014. As of 2014, imports from the EU to the UK were valued at £220.69bn; imports from non-EU countries were valued at £187.11bn, with total imports valued at £407.80bn. Over the period, imports from EU countries grew by 40%, whereas imports from non-EU countries grew by 38%.

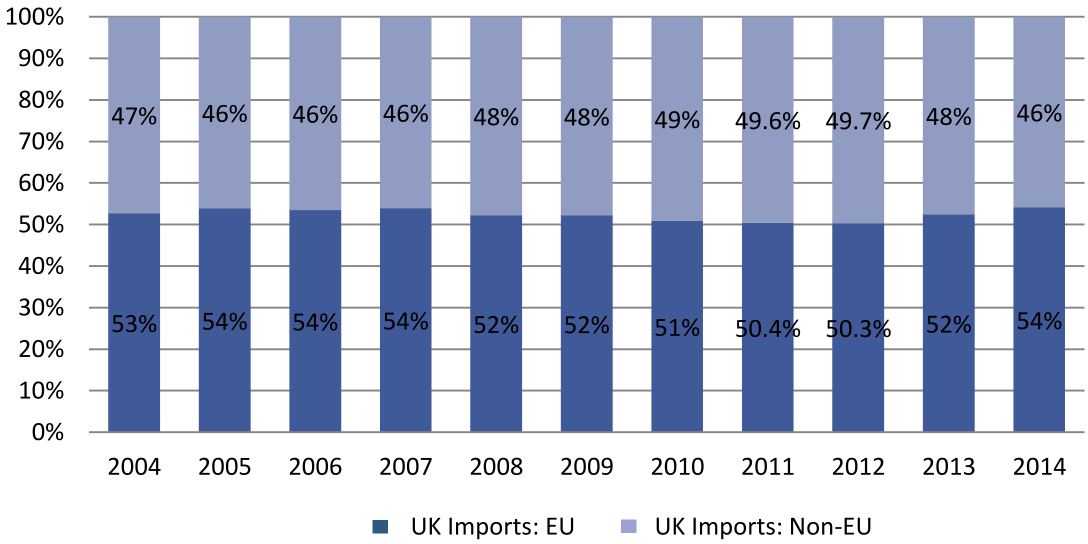
As outlined in Figure 6, a greater proportion of the value of UK imports has been from EU countries, although there was some convergence from 2010 to 2012.

Figure 5: UK imports from EU and Non-EU countries 2004 to 2014 (£000s)



Source: HMRC – Trade Info

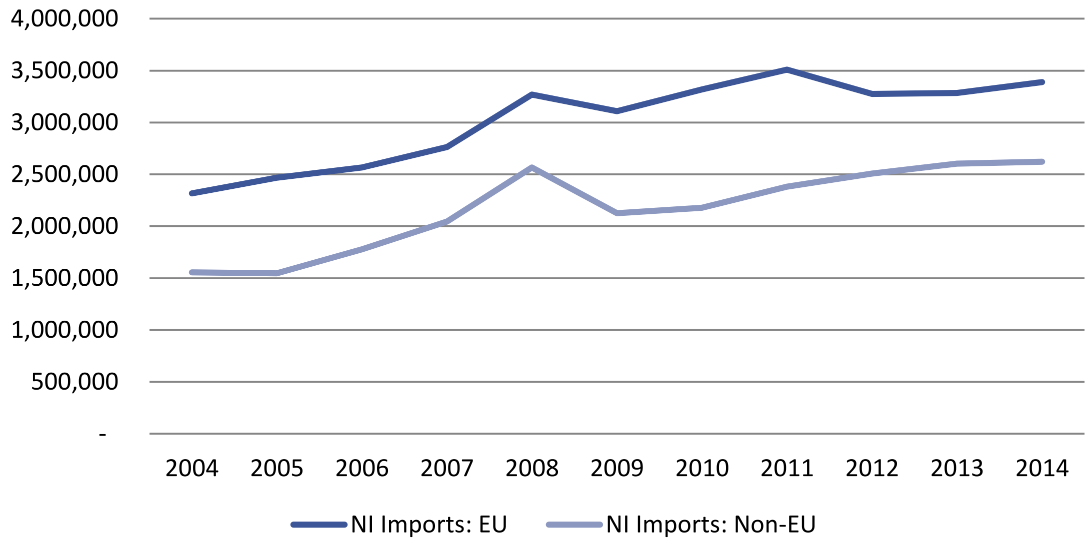
Figure 6: UK imports from EU and non-EU countries, percentage of total exports, 2004-2014



Source: HMRC – Trade Info

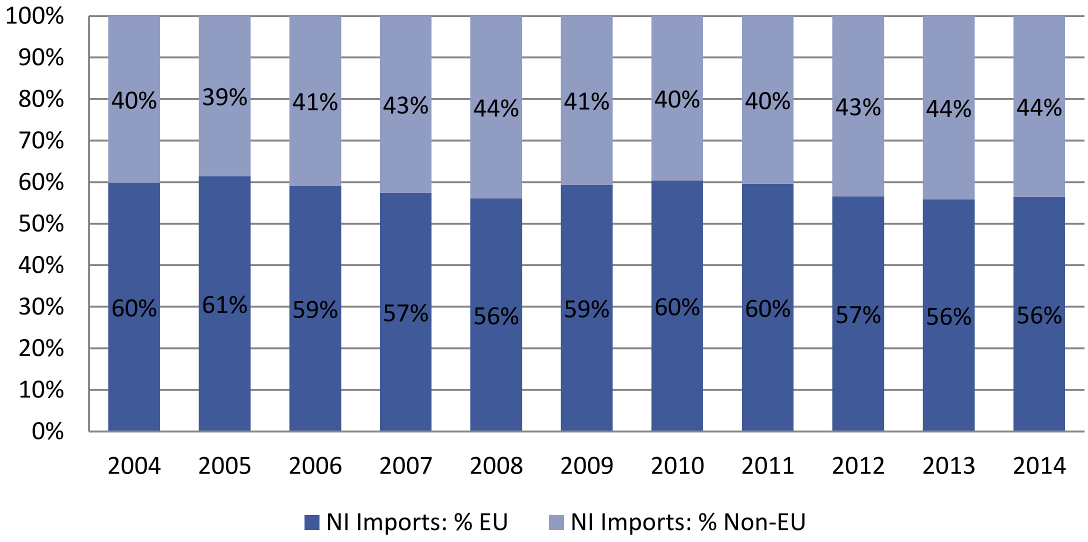
Looking at Northern Ireland imports, Figure 7 shows an increase in the value of both EU and non-EU over the period. Between 2004 and 2014 the value of EU imports grew by 32%, in the same period non-EU imports grew by 41%. Figure 8 shows the proportional split between EU and non-EU imports over the ten years examined. During this period the value of imports from the EU has ranged from 56% to 61% of the total value of imports. In each of the three most recent years EU imports have been at their lowest level, proportionally, since 2008.

Figure 7: NI imports from EU and Non-EU countries 2004 to 2014 (£000s)



Source: HMRC – Trade Info

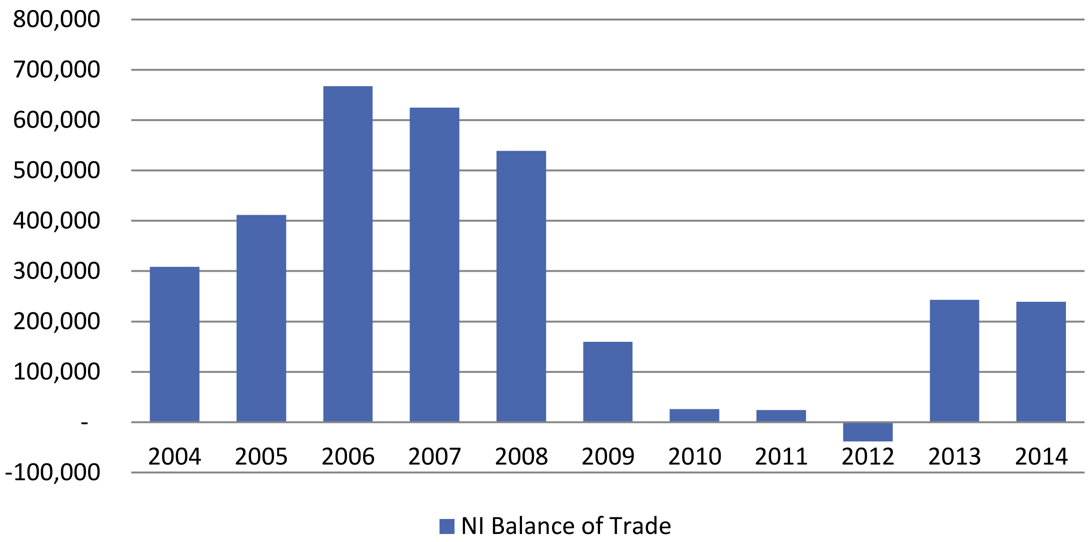
Figure 8: NI imports from EU and non-EU countries, percentage of total exports, 2004-2014



Source: HMRC – Trade Info

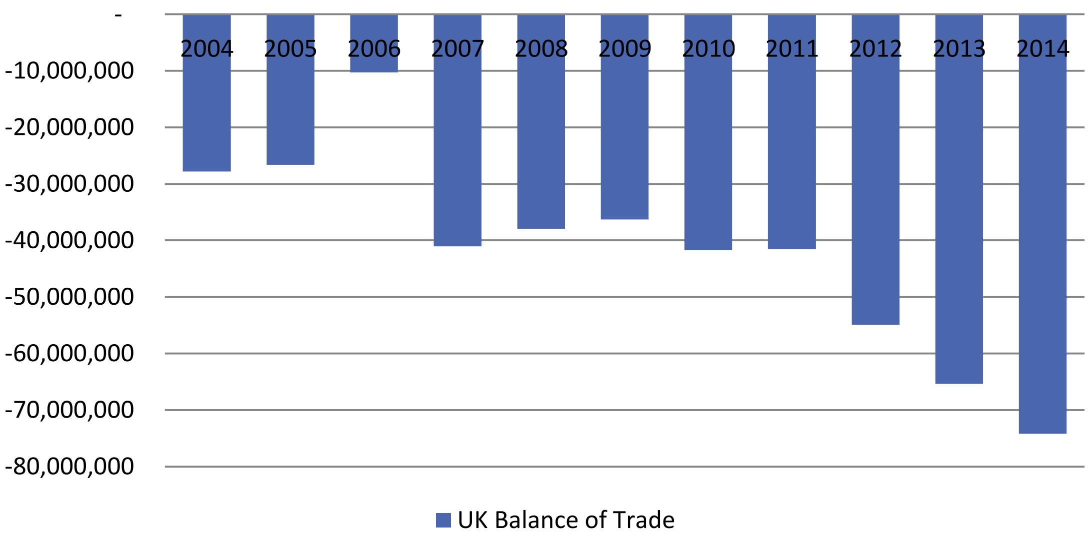
Finally, on trade, Figures 9 and 10 show the balance of trade (the value of exports minus the value of imports) between 2004 and 2014. This shows that in all but one year Northern Ireland (Figure 9) has sold more to the EU than it has bought from it. In contrast the UK (Figure 10) has consistently imported more from the EU than it has exported to it.

Figure 9: Northern Ireland's balance of trade with the EU 2004-2014 (£000s)



Source: HMRC – Trade Info

Figure 9: UK balance of trade with the EU 2004-2014 (£000s)



Source: HMRC – Trade Info

4 Foreign Direct Investment

Table 2 looks at net foreign direct investment (FDI) inflows in to the UK between 2005 and 2014. This shows annual net investment into the UK from a range of states for each year over the period (data for Northern Ireland only could not be located).

Whilst flow data tends to vary from year to year[21], the data in the table does show a decrease in the level of EU inflows into the UK as a proportion of world flows in the country, from 73% in 2005 to 19% in 2014.

Table 3 outlines FDI stocks in the UK by region of origin over the same period. This shows the book value of investments into the UK at the end of each year. It is not a sum of investment over time and is subject to changes in value and exchange rate fluctuations.[22] However, the table does show that the value of EU FDI stocks in the UK has more than doubled between 2005 and 2014. The value of EU FDI stocks has fluctuated between 47% and 53% of total FDI stocks value.

Table 2: Net foreign direct investment flows into the UK by area, 2005 to 2014 (£m)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Europe	80,087	53,837	49,752	25,258	32,075	355	12,736	23,032	9,452	3,979
EU	**71,034**	**47,698**	**39,348**	**24,122**	**25,739**	**-6,574**	**17,688**	**15,052**	**-469**	**5,268**
EFTA	9,050	5,321	8,793	-4,082	1,973	2,567	-2,396	6,432	8,277	2,907
Other European	3	817	1,611	5,219	4,363	4,362	-2,555	1,548	1,644	-4,196
The Americas	17,422	17,242	32,460	18,614	16,774	28,636	11,621	8,129	17,859	16,796
Asia	-4,168	11,806	9,938	4,026	-2,330	5,324	2,842	3,735	4,570	6,283
Australasia & Oceania	..	..	..	..	..	-2,388	..	10,020	921	298
Africa	66	131	459	1,083	18	181	75	-319	214	445
World Total	**96,803**	**84,885**	**93,148**	**48,875**	**48,986**	**32,106**	**28,883**	**44,596**	**33,016**	**27,801**
% EU	**73%**	**56%**	**42%**	**49%**	**53%**	**-20%**	**61%**	**34%**	**-1%**	**19%**

Source: Office for National Statistics

[21] House of Commons Library, Foreign Direct Investment (14 March 2013) http://researchbriefings.files.parliament.uk/documents/SN01828/SN01828.pdf

[22] *Ibid*

Table 3: FDI international investment positions in the UK by area, 2005 to 2014 (£m)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Europe	277,027	332,077	354,382	389,925	416,484	417,201	447,608	553,813	553,889	608,736
EU	**244,392**	**299,906**	**308,996**	**335,526**	**362,673**	**353,741**	**371,932**	**464,790**	**458,244**	**495,798**
EFTA	25,033	22,358	32,570	29,931	29,654	35,771	41,470	35,521	45,986	48,078
Other European	7,602	9,813	12,816	24,468	24,158	27,689	34,205	53,502	49,659	64,860
The Americas	174,037	200,709	202,062	209,792	208,475	242,270	263,464	305,076	277,561	336,772
Asia	24,101	39,436	53,166	50,419	42,521	54,791	66,426	67,698	72,532	73,628
Australasia & Oceania	12,537	7,623	9,412	8,122	12,705	9,721	12,941	32,074	3,953	12,190
Africa	510	469	1,397	2,115	1,088	1,574	2,220	1,430	2,345	3,008
World Total	**488,212**	**580,313**	**620,419**	**660,373**	**681,273**	**725,557**	**792,660**	**960,091**	**910,280**	**1,034,335**
% EU	**50%**	**52%**	**50%**	**51%**	**53%**	**49%**	**47%**	**48%**	**50%**	**48%**

Source: Office for National Statistics

On FDI, the House of Commons Library found that:

> *…establishing the existence and estimating the magnitude of the 'EU effect' on UK inward FDI, and hence the consequences of withdrawal, is very difficult; the decision to invest is motivated by any number of factors, including the integrity of the UK legal system, the availability of particular skills and services and the status of the English language. Disentangling these motivations from those arising from the single market, and accounting for other factors that have caused a surge in FDI over the period of EU integration, including the removal of capital restrictions and the development of capital-intensive technologies, is, in the words of a 2005 Treasury paper "fraught with problems".*[23]

They note that the evidence of an EU effect on FDI is mixed. The paper cites the following examples:

- A study by Civitas found that EU membership *'is likely to have boosted flows of FDI into the UK in the decade after 1973 but that the effect did not persist after this'.*
- The Centre for European Reform which found that a *'UK exit would make the UK less attractive for firms looking to sell to other EU markets'.*
- A UN Conference on Trade and Development survey of 2,272 multinationals which found *'that size of local market was the most important criterion determining the location of FDI for both the manufacturing and services sectors, and the third most important for the primary sector'.*
- Ernst and Young's UK attractiveness Survey, which found that *'72% of companies interviewed in North America thought that reduced integration with the EU would make the EU* ***more*** *attractive as a destination, against 38% of those interviewed in*

[23] House of Commons Library, Exiting the EU: impact in key UK policy areas (4 June 2015) http://researchbriefings.files.parliament.uk/documents/CBP-7213/CBP-7213.pdf

Western Europe'. The survey also found *'31% of investors would either freeze or reduce investment until the result of the referendum is known'.*[24]

The paper concluded:

> *On the whole, it is reasonable to conclude that membership of the single market is one of a number of important determinants of FDI; but outside the EU, the UK may be able to establish a regulatory regime more favourable to overseas investors that could offset the effect of its departure. In particular, the UK would regain competence to negotiate international agreements on foreign direct investment with third countries, something which it has not been able to do since the Lisbon treaty entered [into] force in 2009.*[25]

5 Debate at Northern Ireland level

This section outlines the debate on the EU referendum from a Northern Ireland perspective. As noted in section 5.1, this debate is at an early stage. As such there are only a limited number of reports available that focus on the implications for Northern Ireland of a UK withdrawal from the EU.

At the time of writing two substantial pieces of research are yet to be published:

- An Oxford Economics study on the potential impact of the UK of an EU exit (which the Department of Enterprise, Trade and Investment requested) included an examination of the implications for Northern Ireland[26]; and
- A Northern Ireland Affairs Committee inquiry into Northern Ireland and the EU referendum (inquiry launched 18 January 2016).[27]

5.1 Queen's University Belfast and University College Cork

Complied by a team of academics from Queen's University Belfast and University College Cork, 'To Remain or Leave: Northern Ireland and the EU Referendum' (November 2015) (the QUB/UCC Paper) examines the debate surrounding the EU referendum from a Northern Ireland Perspective. It addresses a number of areas: 'constitutional and political issues'; 'policies and policy cooperation'; 'trade, free

[24] *Ibid*
[25] *Ibid*
[26] Northern Ireland Assembly Oral Question AQO9238/11-16 http://aims.niassembly.gov.uk/questions/printquestionsummary.aspx?docid=251659
[27] Northern Ireland Affairs Committee inquiry into Northern Ireland and the EU referendum (18 January 2016) http://www.parliament.uk/business/committees/committees-a-z/commons-select/northern-ireland-affairs-committee/inquiries/parliament-2015/eu-referendum/

movement and the economy'; and 'funding'. This section will provide an overview of the paper, focussing on 'trade, free movement and the economy'.[28]

The paper begins by noting that *'the debate on whether to vote to remain in or leave the EU has barely begun'* in Northern Ireland. It stresses the importance of this debate:

> *…debate is needed, not least because the arguments presented at a UK level tend to overlook the regional dimension. Regionally-focussed debate is needed, and particularly so in Northern Ireland, given its unique geographical location in the UK of bordering another EU member state. The implications of remaining in and of leaving the EU have regional dimensions that need to be identified and debated.*[29]

The stated intention of the QUB/UCC Paper is not to *'present arguments for either side'* of the debate, rather that it *'raises questions around a range of topics that it is believed need to be considered in advance of the referendum'.* Moreover *'the paper does not claim to be comprehensive in terms of the topics covered or the question raised'*, it is an *'initial foray'* that seeks to *'stimulate discussion and provoke others into identifying the issues they want considered and the questions they want asked and answered in advance of the referendum'.*[30]

On **Trade** the authors note the UK's membership of the EU provides Northern Ireland businesses with *'access to a single market of almost 500 million people'* within which *'goods can be traded free of quotas and tariffs'* and *'services and capital move freely'.* Similarly to Section 2 of this paper, the authors conclude (based on Office for National Statistics data) that the EU, the destination of 56% of Northern Ireland's exports in 2013, is the region's main international exports market. Furthermore, it notes that the Republic of Ireland accounts for 37% of total exports, with the rest of the EU accounting for 21% of overall exports. Table 4 summarises the question raised in the paper on the issue of trade.[31]

[28] Queen's University Belfast, University College Cork, To Remain or Leave: Northern Ireland and the EU Referendum (November 2015) http://eudebateni.org/wp-content/uploads/2015/11/To-Remain-or-Leave-Northern-Ireland-and-the-EU-Referendum.pdf

[29] *Ibid*

[30] *Ibid*

[31] *Ibid*

Table 4: NI Trade questions in the EU referendum debate

Questions should UK remain in the EU	Question should the UK leave the EU
• Will the EU continue to remain Northern Ireland's main destination for exports and main source of imports? • Will further trading opportunities in the EU market develop? Will further trading opportunities in the EU market develop? • Will potential for trade growth in the EU market decline? • What options exist to increase trade between Northern Ireland and the Republic of Ireland? • What obstacles exist to increasing trade with the EU? Will continued membership of the EU contribute to the removal of these obstacles?	• How would trade between the UK and the EU be regulated? • Would free trade continue? • Would tariffs and quotas be reintroduced? • Would the principles of the free movement of goods, services and capital be maintained in trade relations between the UK and the EU? • Would any changes to existing free trade arrangements affect all trade or only certain sectors? • How might different sectors be affected? • How might any uncertainty surrounding the future of the trade regime between the UK and the EU affect business, consumer and investor confidence in the Northern Ireland economy? • Do alternative trade regimes (e.g. EFTA, North Atlantic Free Trade Agreement) provide significant opportunities for growth in trade for Northern Ireland? • How can opportunities for expanding trade with non-members of the EU be maximised?

Source: QUB, UCC

On **external trade**, the authors note the EU negotiates trade deals with non-member states on behalf of member states. In this respect the EU has agreed:

> *…trade deals with most European countries and with most countries in the Mediterranean. Trade agreements have also been agreed with South Korea and countries in Central and South America.*[32]

Negotiations are on-going with the USA on the Transatlantic Trade and Investment Partnership (TTIP). The EU is also *'seeking to conclude an agreement* [with China] *providing for the progressive liberalisation of investment and the elimination of restrictions on investors'.* Questions raised in this area by the authors are summarised in Table 5.[33]

[32] *Ibid*
[33] *Ibid*

Table 5: NI External trade questions in the EU referendum debate

Questions should UK remain in the EU	Question should the UK leave the EU
• Will the EU maintain existing trade deals with non-member states? • Will it continue to pursue trade liberalisation? • Will the EU and the US conclude TTIP? • With a declining share of world trade, will the EU remain a significant global trading power able to shape the terms of world trade? • Given internal divisions on the desirability of trade liberalisation, especially in service, has the EU the capacity to promote more comprehensive trade deals with non-member states? • How important are the EU's trade deals with non-members states for exporters from Northern Ireland?	• How will UK access to foreign markets be affected by leaving the EU? • Would the access immediately cease, or could replacement deals be negotiated prior to leaving the EU? • Will the UK be able to secure the same level of trade access to foreign markets as it currently has as an EU member state? • Could the UK outside the EU secure better trade access to foreign markets? • Would the UK government have sufficient administrative capacity to negotiate and manage replacement deals with all partners? • Would trade partners be willing to conclude bilateral deals with the UK? • How long would it take to conclude bilateral trade agreements to replace current arrangements? • What would be the impact on trade?

Source: QUB, UCC

On the **free movement of workers** the QUB/UCC authors note that the Leave campaign is *'partly invigorated by concerns relating to the free movement of EU workers'* and that this is in *'stark contrast to UK government support for the free movement of capital and commodities across the EU'.* From a Northern Ireland perspective the paper notes the *'free movement of people has left an obvious imprint on society, particularly after the enlargement of the EU in 2004'.* This *'imprint'*, the authors argue, has had positive and negative implications. On the positive it has *'provided a welcome economic boost to many cities and towns'.* On the negative it has *'led to challenges for public sector provisions, notably health and education'* and has been linked to *'a rise in recorded racist attacks'.* Question raised by the authors on this topic are summarised in Table 6.[34]

[34] *Ibid*

Table 6: NI and the free movement of workers – questions in the EU referendum debate

Questions should UK remain in the EU	Question should the UK leave the EU
• How has the EU's free movement of workers principle affected Northern Ireland? • What have been the challenging aspects of the free movement of workers for Northern Ireland? • What can be done to address the issue of race hate crime? • Are schools adequately resourced to educate the children of mobile EU workers? • Has the health service coped with the demands emanating from the free movement of workers? • Should the UK Government seek an opt-out on the free movement for workers while remaining in the EU? • What would be the costs and benefits of such an opt-out for Northern Ireland? • Would a UK opt-out from the free movement of workers have implications for the Common Travel Area encompassing the UK and Republic of Ireland? • Would workers who are working across the Common Travel Area on a North South and/or East West basis be affected by such an opt out? • If so, what would be the likely effects?	• What would be the benefits of ending the free movement of EU workers? • What would be the disadvantages of ending the free movement of EU workers? • What would be the legal status of EU workers already resident in Northern Ireland? • How would the free movement of workers in the Common Travel Area between the UK and the RoI be affected? • What would be the effects for Northern Ireland's economy, politics and society of an end to the free movement for EU workers?

Source: QUB, UCC

5.2 Committee for Enterprise, Trade and Investment – Specialist Advisor

In March 2015, the ETI Committee Specialist Advisor, Dr Leslie Budd of the Open University Business School, briefed the Committee on 'The Consequences for the Northern Ireland Economy from a United Kingdom exit from the European Union'.

Dr Budd's analysis estimates that impact of a UK exit from the EU would be a 3% reduction in Northern Ireland's GDP. This is based on the lower trend growth rate in Northern Ireland compared to the UK as a whole and an estimated 2% reduction in UK GDP following an exit from the EU. Given the estimated reduction in Northern Ireland GDP, the study argues that *'we would expect trend total unemployment to increase by a proportionate amount'.*[35]

In this analysis, three interlinked economic drivers are negatively impacted by the UK's withdrawal from the EU, which will in turn negatively impact regional growth: cross-border trade and economic cooperation; FDI; and the loss of economic development funding programmes. The study concludes that there are *'very large transactions costs*

[35] Budd, L, The Consequences for the Northern Ireland Economy from a United Kingdom exit from the European Union, Briefing note: Committee for Enterprise, Trade and Investment/Open University (March 2015)

associated with a BREXIT'[36] the report identifies a number of areas where these would be significant for Northern Ireland, including:

- **Corporation tax:** '*The logic of harmonising corporation tax with that of the ROI is undermined with accompanying budgetary and transaction costs rising significantly'*.
- **Cross-border trade:** *'The cost of cross-border trade and economic co-operation would rise as would managing the risk of any cross-border infrastructure projects'.*
- **FDI:** *'As a site for FDI to access EU markets, Northern Ireland could lose ground on its neighbour as the ROI becomes a more favourable location for emerging economies'.*
- **EU Funding:** *'The ending of EU economic development funding could result in a reversal of economic decentralisation'*. The study found that EU economic development funding between 2007 and 2013 equalled £2,427m (made up of £1,638m in agriculture and fisheries funding and £789m in other programmes), equivalent to approximately 8.4% of GDP. It added that the EU funding programme for 2014 to 2020 *'is central to the Northern Ireland Economic and Innovation Strategies and the achievement of the objectives within in'.*[37]

6 The view from the Republic of Ireland

In recent speeches, the Taoiseach and the Minister for Foreign Affairs and Trade, Charlie Flanagan have expressed their desire to see the UK remain within the EU.

Commenting on the *'breadth and depth'* of trade, investment links and tourism links between the UK and the Republic of Ireland at the Confederation of British Industry Annual Conference in November 2015 the Taoiseach stated (the research highlighted in this statement is outlined in greater detail below):

> *Clearly, the choice of whether to remain in the European Union, or to leave it, is for the British people alone to make. I fully accept and understand that the decision will not be made on the basis of its economic impact on other jurisdictions. But I think it is right – as your friend, closest neighbour and the only EU partner with whom Britain shares a land border – to share our perspective with you.*
>
> *The Irish Government's strong view, backed up by impendent economic research published last week, is that a Brexit is not in Ireland's economic interest. The research showed adverse impacts across a range of headings including Trade, Energy and the Labour Market. It also debunked the myth that there would be some FDI bonanza for Ireland if Britain left the Union.*

[36] *Ibid*
[37] *Ibid*

The research also found that Northern Ireland could be the most adversely affected region of the UK in the event of a Brexit. This is extremely worrying on a number of levels.

The EU has been an important, perhaps underestimated, enabler of peace in Northern Ireland. It was instrumental in facilitating constructive contact and building trust between our Governments to find a political settlement. All-island economic cooperation is so much easier between two members of the European Union.[38]

Commenting on the importance of the EU Referendum to the RoI's national interests during September 2015, Minister Flanagan noted that *'the UK is our biggest trading partner: €1 billion of goods and services* [are traded] *every week'.* He added *'common Irish and British membership of the EU's single market has been instrumental too in bringing our economies so close and creating jobs and wealth'.* On the referendum he stated:

…it is no surprise that every element of Irish society – its people, its businesses, its Diaspora – is anxious that Ireland's interests are best protected when it comes to the EU-UK debate. And that is why we have resolved, despite being respectful of the democratic process here, to make our voices heard in the debate.

He added too, the RoI would work with the UK to secure EU reform:

…our focus is on working together in pursuit of common EU policy and reform objectives. This includes areas that we know are of key importance to the UK, whether it's creating a real digital single market, the finalisation of trade agreements or lessening the regulatory burden for our businesses.

We will be open-minded too on other issues. We know, for example, that the UK is likely to suggest proposals to improve how the Union operates. The detail of what may be proposed will be important and will need to be achievable. But I can promise that our instinct is to be sympathetic. It is already clear that many other EU partners will take a similar approach. After all, we all want to see our Union work more effectively and we all want to see the UK remain in the EU.[39]

The research referred to in the Taoiseach's statement above is a piece of work carried out by the Economic and Social Research Institute titled 'Scoping the possible

[38] Department of the Taoiseach, Address by An Taoiseach, Mr Enda Kenny TD to the Confederation of British Industry Annual Conference Grosvenor House Hotel, London "Securing our global future in a changing world" (9 November 2015) http://taoiseach.gov.ie/eng/News/Taoiseach's_Speeches/Address_by_An_Taoiseach_Mr_Enda_Kenny_TD_to_the_Confederation_of_British_Industry_Annual_Conference_9_November_Grosvenor_House_Hotel_London_Securing_our_global_future_in_a_changing_world_.html#sthash.TTWZIa3R.dpuf

[39] Department of Foreign Affairs and Trade, Minister Flanagan addresses Chatham House in London on "Brexit" https://www.dfa.ie/news-and-media/speeches/speeches-archive/2015/september/flanagan-addresses-chatham-house-on-brexit,-london/

economic implications of Brexit on Ireland'. The report's main findings in areas of trade and investment were as follows:

- On **trade** it found that a UK exit from the EU would significantly reduce bilateral trade between the two countries. The impact was estimated to be as high as a 20% reduction in trade. This is an average figure, with a significant variation in impact across sectors expected. For example it found that *'sectors such as Agriculture, Food and Beverages and Basic Metals are relatively more dependent on exports to the UK and so the impacts on them would be severe'.* It also found that trade impacts would be particularly significant from a Northern Ireland perspective, concluding *'overall Ireland is more important to Northern Irish exporters than Northern Ireland is for Irish exporters so, again, there would be differing impacts of a Brexit'.*[40]
- On **foreign direct investment** the report argues that the *'UK outside the EU would be less attractive to FDI because of uncertainty and reduced access to the EU single market'* and that a reduction in FDI could diminish future UK growth, which would negatively affect RoI growth due to a reduction in trade. The report plays down the possibility of the RoI benefiting from a drop-off in FDI into the UK. It states:

> *Ireland may attract additional FDI projects including some from the relocation of FDI from the UK. However, on the basis of patterns of the location choice of new FDI projects in Europe over the past ten years, the expected additional attractiveness of Ireland to new FDI projects is likely to be small.*[41]

The report's authors are, however, confident that the RoI will remain an attractive destination for FDI relative to the UK due to *'more competitive corporate taxation'.*

An earlier inquiry by the Oireachtas Joint Committee on European Union Affairs titled: 'UK/EU Future Relationship: Implications for Ireland'. The inquiry sought to establish *'How a fundamental change in the UK-EU relationship impact on Ireland?'.* In the area of trade and investment, the report drew the following conclusions:

- The UK and RoI trade over €1bn in goods and services each week. Approximately 25% of Northern Ireland's trade is with the RoI. Evidence to the Committee suggested RoI GDP could decrease by 3.6% were the UK to withdraw from the EU and the single market.
- The RoI agri-food sector is reliant on the UK market. In 2013 exports from this sector to the UK amounted to €3.2bn, accounting for 51% of the RoI's total agri-food sectors. The RoI imports of UK agriculture and food products were valued at €2.6bn in the same year, 51% of total UK imports in this sector.
- The UK is the RoI's most important tourism market. In 2013, three million UK citizens visited the RoI, valued at €819m to the RoI economy.

[40] ESRI, Scoping the possible economic implications of Brexit on Ireland (November 2015) https://www.esri.ie/pubs/RS48.pdf
[41] *Ibid*

- RoI's FDI stock in the UK in 2011 was valued at $65.2bn. In the same year, UK FDI stock in RoI was valued at $69.2bn.
- As of 2014, 200,000 people in the RoI were employed as a direct result of exports to the UK, this equates to 10.4% of employment in the RoI.
- Trade Policy is an exclusive competence of the European Union, meaning that should the UK exit the EU, the RoI could not bi-laterally negotiate and enter into a trade agreement with the UK.[42]

7 Discussion and points of consideration

The debate on the EU referendum and its possible implications for Northern Ireland is currently on-going. As noted above, two significant pieces of work are progressing which promise to provide more insight into the debate. This section discusses the studies outlined above and suggests a number of areas of consideration for the Committee as the debate on the EU referendum evolves.

The trade data examined in Section 3 of this paper shows that the EU is Northern Ireland's largest export market. The balance of trade data in the same section highlights that Northern Ireland exports more to the EU than it imports from it. The UK as a whole imports more from the EU than it exports to it.

The outcome of the EU referendum, insofar as it could potentially alter Northern Ireland's access to the EU single market, may impact on the region's exporters. Currently, it is not possible to determine exactly what form the UK's trading relationship with the EU will take should the UK electorate vote to leave. This will be determined by negotiations between the UK and the EU.

A number of possible outcomes have been put forward. As outlined in Section 2 of this paper, the implications range from continued access to the single market – as is the case with the Norwegian Model – to Most Favoured Nation trade through the UK's Membership of the WTO – with brings with it the potential for export tariffs. Similarly, the UK's trade agreements with third countries are subject to its membership of the EU. These too will require renegotiation in the event of a UK exit. All of this gives rise to a number of questions:

- How well will Northern Ireland exporters and the Northern Ireland economy as a whole be able to absorb any increase in tariffs or reduction in exports in a post-EU environment?
- What is the potential for increasing exports to non-EU countries and will this be sufficient to counter balance any reduction in EU exports resulting from changes to single market access?

[42] Joint Committee on European Union Affair, How a fundamental change in the UK-EU relationship impact on Ireland? (18 June 2015) http://www.oireachtas.ie/parliament/media/committees/euaffairs/Agreed-Report-UK-EU-Future-Relations_Updated.pdf

- How will the UK government ensure that different regional trade positions are reflected in any future trade negotiations with the EU in the event of a Leave vote?

On FDI, Section 3 noted that whilst the FDI inflows from the EU into the UK have varied on a yearly basis, the value of EU FDI stock has been relatively more predictable, fluctuating between 47% and 53% of total FDI stock value. The same section cited evidence gathered by the House of Commons Library which suggests that opinions on the importance of the UK's membership of the EU to attracting FDI are mixed. In their consideration of this topic, ESRI concluded that the *'UK outside the EU would be less attractive to FDI because of uncertainty and reduced access to the EU single market'.* Similarly, in his analysis for the ETI Committee, Dr Budd argued that as a site for FDI to access EU markets *'Northern Ireland could lose ground on its neighbour as the RoI becomes a more favourable location for emerging economies'.* Again this gives rise to a number of questions:

- To what extent is Northern Ireland's attractiveness as a destination for FDI predicated on its access to the single market?
- Will Northern Ireland's decision to reduce its rate of corporation tax outweigh or be undermined by changes to its access to the single market?

A number of additional questions arise on the back of the sources outlined above, namely:

- The research by QUB and UCC highlighted some of the challenges and benefits associated with the free movement of people across the EU. The authors posed the following question: What would be the effects for Northern Ireland's economy, politics and society of an end to the free movement for EU workers? Some further questions arise out of this, which may be of interest to the Committee, such as: To what extent do Northern Ireland companies rely on workers from the EU to meet skills gaps; and, how important is it to foreign investors in Northern Ireland that they can access the wider EU skills base when they chose to invest in the region?
- Dr Budd's analysis for the ETI Committee argued that a UK exit from the EU economy could see a 3% reduction in Northern Ireland's GDP. In the event of an exit: what can the region do to minimise this reduction, and what can policy makers do to offset any GDP reduction?
- Dr Budd's analysis concluded that EU funding support over the period 2007 to 2013 accounted for approximately 8.4% of Northern Ireland's GDP. This support has been particularly important to the region's agriculture and fisheries industries. A key question here is to what extent will the UK Government be required, capable and willing to fill the gap in NI funding in the event of an EU exit?
- In addition to trade and investment, the Joint Committee on European Union Affairs highlighted the important tourism links between the UK and the RoI. Extending this consideration to Northern Ireland begs the question of what impact an exit from the EU would have on Northern Ireland's ability to attract visitors from EU countries and how this might affect tourism revenue?