

*Initial Analysis of the Challenges and Opportunities
of Brexit for the Derry City & Strabane
and Donegal County Council areas -
The North West City Region*



February 2017



Derry City & Strabane
District Council
Comhairle
Chathair Dhoire &
Cheantar an tSráidhe Báin
Derry Cille & Strábane
Distric Council



Comhairle Chontae
Dhún na nGall
Donegal County Council



Ulster
University
Economic
Policy Centre

Preface

We welcome the opportunity to present this joint research, which was commissioned by Derry City and Strabane District Council and Donegal County Council to provide strong leadership for the region in this time of great uncertainty.

While the results of Brexit will have differential geographical impact across these Islands, the effect on the North West Region, the fourth largest City Region within Ireland, may be significant and sustained unless coherent, decisive, mitigating actions are put in place.

Work on the establishment of the North West Strategic Growth Partnership* between both Councils and both Governments is well advanced. It provides a strong model of partnership through which to build practical responses to the UK's exit from the EU. Much work has already been done through the development of the draft Strategic Growth Plan 2017-2022 for the DCSDC area and Donegal's Local Economic and Community Plan 2016-2022.

As one of the few City Regions within Europe that will potentially now see an EU/non-EU international frontier cut across it - we face particular challenges, many of which are outlined within this report.

Peripherality has been a continuing issue for the region with poor infrastructural linkages to the major cities of Belfast and Dublin. These challenges will only be compounded by the changes that Brexit will bring, no matter in which form it is implemented.

While many areas make claims to their uniqueness in the context of Brexit, our research to date provides a robust evidence base. It unambiguously demonstrates the extreme sensitivity of this region to any changes in trading arrangements whether by the imposition of tariffs, quotas or restrictions on services or labour mobility.

This 'economic entity' has benefitted significantly from the cross-border collaboration evident in the spheres of education, health, environment and research and development, through economies of scale, reduced duplication and improved co-ordination rather than back to back development.

It is a truism that uncertainty, at the level of citizens, negatively impacts upon consumer confidence, consumer spending and ultimately quality of life. Similarly, within a business environment it undermines business sentiment, and in turn investment and wealth generation which affects those living within this region. It also impacts on the ability of local government to raise revenue and thus provide improved services.

Now, seven months on from the UK decision to exit the EU, and less than two months from the triggering of Article 50, it is apparent that the North West Region faces significant challenges alongside some opportunities.

Against a background of growing clarity on how Brexit will be implemented - UK PM Theresa May's statement on 17 January confirms the decision to leave the Single Market - both Councils have pro-actively responded. Collaboratively we have assembled the range of sources of information that will be needed by local, national and international policymakers to inform them on the issue of the UK's exit from the EU regardless of the option - hard or soft.

This initial report enables us to consider the socio-economic characteristics of the region, identify gaps in the knowledge base, consult with key stakeholders and evidence-share with agencies, social, community, voluntary and enterprise sectors and the business community.

Our consultation finds that overwhelmingly, the consensus is there should continue to be free movement of goods, services and people across this Region, “preserving the seamless border”, as Taoiseach Enda Kenny has said. It demonstrates that there is an even greater imperative to ensure that our Strategic Growth Plan priorities are realised i.e. the A5, A6 and N14 roads, Transport Hub, University Expansion development of tourism infrastructure and our regional strategic sites. Additionally, we will begin exploring opportunities emergent from Brexit such as the possible development of a Cross-Border Free Trade Zone.

This joint work will be on-going as the nature of the UK’s exit from the EU becomes clearer. We are beginning to explore opportunities emergent from Brexit including a number of localised solutions within the North West City Region to mitigate the potential impact of Brexit while maximising any benefits of the UK’s exit from the EU.

We welcome any further comments that people may have in response to this report. These responses should be sent to strategicgrowth@derrystrabane.com or strategicgrowth@donegalcoco.ie.



John Kelpie
Chief Executive
Derry City & Strabane
District Council



Seamus Neely
Chief Executive
Donegal County Council

*The proposed ‘North West Strategic Growth Partnership’ will become a regional driver for cross-border cooperation, with strong linkages to the respective programmes for government, North and South, and EU funded programmes. The function of this body is to be a focused forum that can inform the alignment of relevant investment from both sides of the border to meet the growth needs of the region and through which place-based leadership (demonstrated by the Councils) can connect with Government, North and South.

Contents

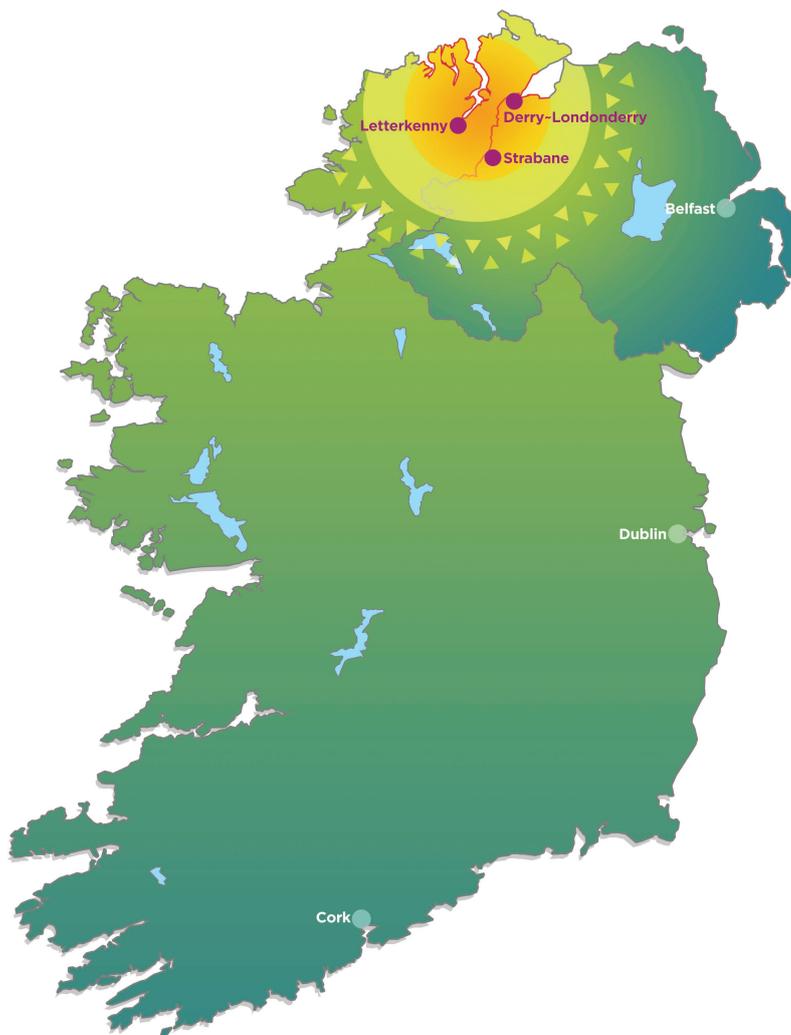
1.0	Background to the report	6
2.0	Introduction: Brexit, measurement and speculation	7
2.1	Brexit	7
2.2	Measurement and speculation	9
2.3	Speaking to Key Informants - What we have been told so far	13
3.0	The North West City Region Economy	22
3.1	Labour market	22
3.2	Business demography	23
3.3	Considerations	23
4.0	Initial areas for consideration in the North West City Region	24
4.1	Trade: Cross-border and exports off the island	24
4.2	Foreign Direct Investment: A Success Story?	27
4.3	EU funding: Crucial to the third sector and rural development	29
4.4	Migration: An internal and external issue	30
4.5	Tourism: Successes but under-developed markets	33
4.6	Cross-border shopping: living with borders	34
4.7	Cross-border Cooperation & Management	35
4.8	Other issues	35
4.9	Conclusions	36
5.0	Possible outcomes	37
5.1	Derry City & Strabane District Council area	37
5.2	Donegal County Council area	39
6.0	Next steps	40
7.0	Emerging conclusions and potential mitigations	41
	Notes	45

Acknowledgements

The authors (UUEPC and Michael Gallagher, Derry City & Strabane District Council) would like to thank Loretta McNicholas (Donegal County Council), Professor Frances Ruane (Trinity College, Dublin) and Dr Katy Hayward (Queen's University, Belfast) for sharing their insights, research findings and data. For additional assistance with data, we would like to thank the relevant statisticians in the Department for the Economy, the Central Statistics Office, the Department of Jobs, Enterprise and Innovation and the Northern Ireland Statistics and Research Agency.

1.0 Background to the report

Immediately following the Referendum result in June 2016 Derry City & Strabane District Council (DCS&DC) and Donegal County Council (DCC) resolved to undertake an initial scoping study on the potential impacts of the Brexit decision on the North West Region (NWR) and appointed the Ulster University Economic Policy Centre (UUEPC) to provide research and technical support for the scoping exercise. The work-plan elements include desk-top research, a literature review, economic modelling and stakeholder engagement across both the DCS&DC and DCC areas. Map 1 depicts the North West Region comprising approximately c. 350,000 people.



Information from DRD’s Telemetric data counts the number of vehicles crossing a given point (travelling in both directions) on an hourly basis. The 2015 Data shows that a total of 326,577 journeys are made per week across the three major crossings – Derry/Bridgend (all data both ways), Muff Village to Derry and Strabane/Lifford.

Figure 1: Total Traffic Movement per week and day per route – DRD 2015 Telemetric Data

Route	Traffic Movement (per week)	Traffic Movement (per work day)
Derry-Bridgend (border)	134,863	19,266
Derry-Culmore (border)	71,145	10,164
Strabane-Lifford (border)	120,569	17,224
Total no. journeys	326,577	46,654

This summary report provides a brief review of the scoping exercise to date and some initial estimates of the potential impacts of Brexit on employment in the NWR, given its current economic profile and its position along what will become a land border between an EU member state and a non-member state, as well as the existing high levels of integration across the region in many areas of social and economic life. It offers considerations on the potential impact of Brexit on some of these areas and what actions might be taken by the two Councils, government and non-government stakeholders to minimise these impacts and ensure any opportunities are fully explored and developed.

This report also includes some analysis on the economic literature dealing with Brexit and its potential impacts on the UK and Ireland; a review of the economic developments since the referendum; an overview of the North West City Region's economy; some considerations on the specific sectoral areas within the NWR where Brexit may lead to challenges and opportunities; some initial estimations of the economic impact of Brexit; and some final suggestions on mitigating risks and maximising opportunities.

As part of the work DCS&DC and DCC are jointly undertaking an extensive consultation exercise with representatives from the business, health, education, Community, Voluntary and Social Enterprise (CVSE), Agri-food and logistics sectors. A brief summary of their early responses are outlined within the report.

2.0 Introduction: Brexit, measurement and speculation

2.1 Brexit

The result of the United Kingdom's (UK) European Union (EU) membership Referendum on 24 June 2016 came as a shock to many and was followed by a short period of stock market volatility and significant exchange rate volatility. In Northern Ireland (NI) a majority (56%) voted to remain in the EU, a voting pattern which occurred in 11 of the 18 parliamentary constituencies. In the North West, within Foyle, 78.3% voted to remain within the EU, the largest majority within Northern Ireland to vote remain. West Tyrone voted 2:1 to remain and in East Londonderry a slim majority voted to stay in the EU.¹ In terms of predictors of how people voted in NI, research by political scientists show the strongest factors to be underlying ethno-national identity of voters (whether they are nationalist, unionist, etc.), partisanship as well as some evidence that traits associated in the UK with a 'left behind by globalisation' also affected voting pattern.²

In terms of what happens next the timetable for Article 50 to be triggered and negotiations between the UK and EU on a withdrawal agreement has become clearer.³ Article 50 appears most likely to be triggered in March 2017 and, unless EU member states unanimously agree to a longer negotiation period, there will be a two-year deadline (up to the spring of 2019) to conclude a deal over the UK's exit. At that point talks on future trade agreements, both with the EU and also with other World Trade Organisation members, can begin in earnest, which has prompted concerns about what happens in 2019 - will there be a transitional arrangement, what might this be and will EU member states agree to it or push the UK into relying on WTO rules?⁴

The shape of Brexit is becoming clearer, although what the UK and the EU member states want are likely to be very different.⁵ The UK Prime Minister has provided clarity as to ‘precisely which exit door Britain should be heading for’⁶, driven by the desire to retain control over immigration policy. Therefore, the media and other commentators have moved on from speculating how the new UK Cabinet will deal with the negotiations and whether the end result is likely to be a ‘soft Brexit’ (continued membership of the Single market through membership of the EEA or the ‘Norway option’) or a ‘hard Brexit’ (leaving the Single Market and operating under WTO rules to negotiate new trade agreements with third party countries).⁷ The European Commission has steadily insisted that there can be no ‘cherry picking’ of those parts of the relationship that the UK likes. In the meantime Figure 2 attempts to identify what various Brexit options might mean for access to the Single Market or freedom of movement of labour in any future UK/EU relationship.⁸

Figure 2: Implications of various options for the future EU-UK relationship

10 EU policies or processes	No Brexit	Soft Brexit		Hybrid	Hard Brexit		
	Full EU membership	EFTA EEA	EFTA Switzerland	Continental partnership	CU with Turkey	FTA with Canada	WTO rules
Single Market (SM) access?	Yes	Yes	Partial	Yes, but	No	No	No
Free labour mobility?	Yes	Yes	Yes	Limited	No	No	No
Part of SM rules?	Yes	Yes	Partial	Yes	No	No	No
Say in SM rulemaking?	Yes	No	No	Partial	No	No	No
Bound by ECJ SM decisions?	Yes	Yes	Partial	Yes	No	No	No
Duty-free access in goods?	Yes	Yes	Yes	Yes	Yes	Yes	No
Market access for services?	Yes	Yes	Partial	Yes	No	Partial	No
Part of EU commercial policy?	Yes	No	No	Yes, Possibly	Yes	No	No
Part of EU agricultural policy?	Yes	No	No	No	No	No	No
Contribution to the EU budget?	Yes	Yes	Yes	Yes	No	No	No

EFTA: European Free Trade Association • EEA: European Economic Area • CU: Customs Union • FTA: Free Trade Agreement • WTO: World Trade Organisation

The questions over what happens next and the likely shape of Brexit have had an impact on this island. In NI, where the parties in the Executive took opposite sides in the Referendum, the Executive Office sent a letter to the UK Prime Minister on the 10th August 2016, setting out the case for both the involvement of the NI Executive in the Brexit negotiations and the consideration of the special conditions resultant from NI sharing a land border with the Republic of Ireland. It also noted other areas of special concern, such as cross-border commuting, the need for a secure energy supply, the continuation of EU funding (estimated to be worth £3.5bn up to 2020) and the exposure of the Agri-food sector.⁹ A ‘Brexit unit’ has been established in the Executive Office and audits of risks and opportunities are underway within the NI Departments and, separately by the North/South Ministerial Council (NSMC), on cross-border matters. The idea of demanding a ‘special status’ for NI has been debated in the Assembly (and voted down) and providing a shape to this concept is likely to fall outside political circles. A critical assessment of this approach has contrasted the reaction to Scotland where the Executive has created a new Brexit minister, appointed a standing group of advisors and has issued a plan for the negotiations.¹⁰

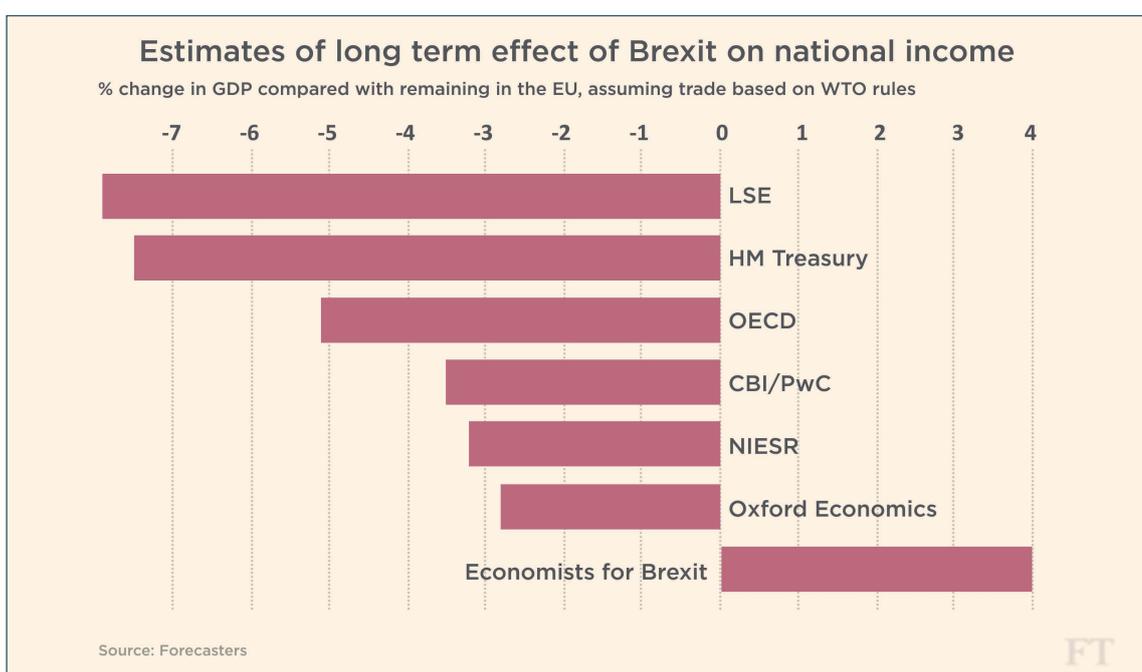
In the Republic of Ireland there has been a much greater level of activity. In the days after the Referendum the Department of Taoiseach released a Brexit contingency plan intended to provide reassurance and with some immediate actions to support Irish businesses.¹¹ This was followed in the Budget by further steps to try and insulate the Irish economy against any negative impacts of Brexit. The responses include reduced capital gains for entrepreneurs to attract these to Ireland, extension of the Foreign Earnings Deduction designed to allow companies to diversify into non-EU markets, retention of the 9% VAT rate for the hospitality sector and other measures designed to make Ireland attractive to FDI and to combat any volatility in the wake of the Brexit decision.¹² Strategically, the Irish government has adopted a three-pronged approach, attempting to address Irish/EU, British/Irish and North/South relations simultaneously. However, the forthcoming negotiations raise issues about where best to position the Republic of Ireland and whether its interests are aligned with those EU partners (the Nordic and Baltic countries as well as Germany, the Netherlands, Hungary and Poland) who 'are likely to favour a future status for the UK as close as possible to the current arrangements' and how close to work with the British government on the issue. The North/South element has also proved difficult, although a recent plenary meeting of the North/South Ministerial Council has agreed to continue to discuss Brexit bilaterally and, that in doing this, they 'would be guided by some common principles'.¹⁴

2.2 Measurement and speculation

While Brexit is likely to be the most significant political and economic shift that these two islands will see in the next decade it remains difficult, if not impossible, to be too prescriptive about the economic impacts of Brexit. The issue of economic impacts has generated a long and, at times, controversial debate about the relative merits of membership of a trading bloc as against the freedom to negotiate trade agreements with third party countries, the free movement of labour and its implications, and the movement of capital or investment. In the background, lies a more general debate about globalisation and its costs and benefits.

The debate has included assessments on the short, medium and long-term impacts of a Brexit on the UK economy. As Figure 3 shows most assessments have been negative about the long-term impacts on the UK's GDP growth, although this has raised questions about both the modelling techniques used and the assumptions they were based upon.¹⁵

Figure 3: 2017 GDP forecasts for the UK economy



Source: Financial Times, 27 June 2016

The regional and sub-regional economic impacts of Brexit have been less studied or discussed even though it is understood that there would be varying impacts of a UK exit and that the Irish border and the regions contiguous to it have more reason to be concerned than most about what will happen next. There has been some research on the risk exposure of the UK regions in terms of their goods exports and/or receipts of EU Structural Funds, which finds that the North East, South West and Northern Ireland are more exposed on exports than other UK regions, while Wales was most exposed in terms of receipt of EU funding.¹⁶ With regard to EU funding NI (in both the 2007-2013 and 2014-2020 funding periods) has been the second largest per capita UK regional recipient behind Wales of combined European Regional Development Fund and European Social Fund funding – receiving more than €338 per head which is almost twice the UK average.¹⁷

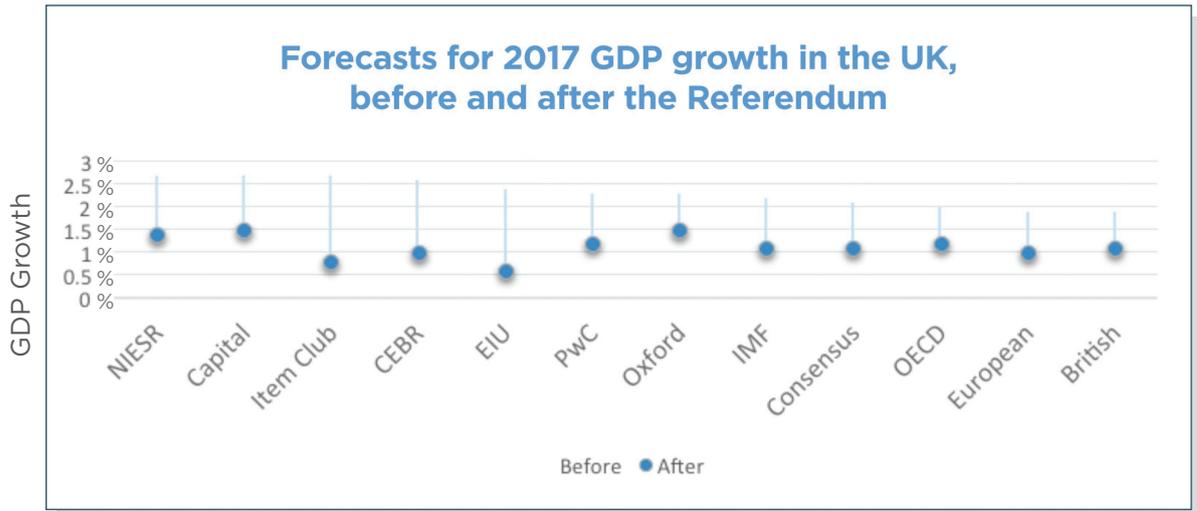
For NI, specifically, an early paper for the Assembly's Committee on Enterprise, Trade and Investment estimated that NI's economic output could be 3% lower as a result of Brexit, based on the UK's output being reduced by 2%. Similar figures were produced in research by Oxford Economics for the Department for Enterprise, Trade and Investment, which finds that on average across nine scenarios GVA growth in the UK economy will be 1.8% lower than baseline by 2030, for NI it was 2.8% lower.¹⁹ The Nevin Economic Research Institute have also released research, first on the sectors at particular risk from Brexit and then what the implications might be of a 'hard Brexit', where the UK leaves both the Single Market and the Customs Union.²⁰

The potential impact of Brexit on the economy of the Republic of Ireland is forecast as equally concerning. Research in 2015 estimated that Ireland would be far and away the worst affected EU member state by a UK exit with lower than baseline GDP, by 2030 of between 0.8% and 2.6%.²¹ The consensus since then, with research by the Economic and Social Research Institute (ESRI) leading the way, has been that due to the Republic's close trade, investment, energy and migration integration with the UK, the impacts would be largely negative, perhaps with the exception of gains in FDI. The analysis estimates that under a 'hard Brexit' (ie: the UK operating WTO rules) Ireland's GDP would be 3.8% lower after 10 years. Much of this may be driven by trade losses where Ireland could lose 30% of its trade with the UK under WTO tariffs and this amounts to 4% of its total trade compared to the EU average of half of that amount. The UK could lose 27% of its trade with the Republic of Ireland but this only amounts to 1.5% of total trade.²²

A picture has emerged for the Republic of Ireland of some sectors (and indeed regions where these are concentrated) being particularly exposed to risk due to UK trade being a high proportion of the sectoral total and also being a high proportion of the Republic's total trade with the UK. The sectors included in this include Pharmachem, Food & Drink, Traditional Manufacturing, Materials Manufacturing, Electrical Equipment and Transport Services.²³ The Agri-food sector has come in for particular attention with some estimates of a fall in exports of between 1.4% and 7% (depending on the scenario), even with a diversion of sales to other destinations.²⁴

With this almost completely negative consensus about the economic impacts of Brexit it is not surprising that Figure 4 shows that almost all forecasters monitored by the UK Treasury have reduced their forecasts for GDP growth in 2017 since the Referendum. Only one of the 41 City and non-City forecasters (Liverpool Macro Research) actually increased their forecasts for GDP growth in 2017 (in this case from 2.4% in May to 2.6% in November). However, it should be noted that the average in August 2016 for 2017 stood at 0.7% and, by December, this had risen to 1.1%, reflecting the better-than-expected indicators since the June result. Likewise, in both the Republic of Ireland and NI forecasts for growth in 2017 have also been downgraded due to worries about the impact of Brexit. Although, in Ireland, most of the 2017 forecasts for GDP growth since the Referendum are still above 3%, with the ESRI in December 2016 forecasting 3.5%. Indeed, much of the narrative concerns potential over-heating in Dublin, particularly in housing, the need to avoid fiscal loosening and the risk to US FDI from a Trump presidency.

Figure 4: 2017 GDP forecasts for the UK economy



Source: HM Treasury, Forecasts for the UK Economy, December 2016

However, it has to be said that much of these estimates are exactly that – speculations based on assumptions rather than measurement of something that has happened. And since the Referendum the early economic data is not showing much negative impact as yet on UK (or NI) domestic demand and business investment.²⁵ Figure 5 shows that most of the economic indicators have remained positive since June which may be a result of the quick response of the Bank of England (increasing the levels of quantitative easing and lowering interest rates) as well as the Treasury signals that the UK budget would not have to be balanced by 2020.

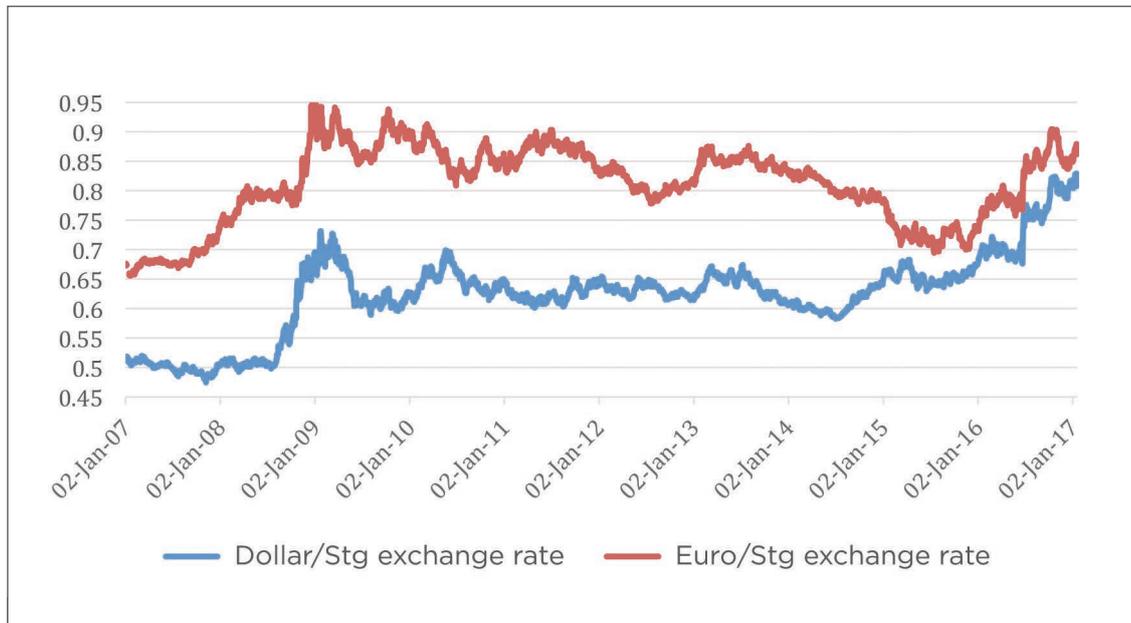
Figure 5: 2017 GDP forecasts for the UK economy

Indicators November/December 2016	Change since Brexit vote
FTSE 100	▲ +13%
Sterling into USD	▼ -16%
Sterling into Euro	▼ -8%
UK Retail sales (Jun vs. Nov)	▲
UK Consumer confidence (Jun vs. Sept)	▲
Economic Surprise Index (Jun vs. Sept)	▲
UK Claimant unemployment (Jun vs. Nov)	▼
UK New car sales (YoY to Nov 2016)	▲
NI PMI: Output/Business activity (Jun vs. Nov)	▲
NI PMI: New business (Jun vs. Nov)	▲
NI PMI: Backlogs (Jun vs. Nov)	▲
NI PMI: Employment (Jun vs. Nov)	▼
NI PMI: Input costs (Jun vs. Nov)	▲
NI PMI: Price charged (Jun vs. Nov)	▲
NI PMI: New export business (Jun vs. Nov)	▲

Sources: FTSE 100: London Stock Exchange (13/12/2016); Exchange rate: Bank of England (23/1/2017); Retail sales: ONS; Consumer confidence: GfK; Economic Surprise Index: Ulster Bank on behalf of Bloomberg; Claimant Unemployment: ONS; New car sales: SMMT; PMI: Ulster Bank.

Volatility in exchange rates has been the factor which has had the most immediate impact, in particular in the North West which operates an effective two currency zone for employees, businesses and retailers. The 13% weakening of Sterling against the Euro (shown in Figure 6) has not repeated the near-parity of late 2008 but the rapidity of the change between June and October (when Sterling fell by 20%) and talk of a continuing weaker Sterling is creating concerns. Indeed it is the very volatility (with a statement by the UK Prime Minister causing a 2% swing in one day) that concerns businesses.

Figure 6: Sterling vs Dollar and Euro, 2007-2016



Source: Bank of England

To conclude, the largely negative consensus about the economic impact of Brexit is similar across UK, NI and Republic of Ireland forecasts (both for the medium and long term). However, the positive economic indicators since the summer has strengthened criticism of these forecasts.²⁶ In the immediate aftermath of the Referendum result, the Nobel Laureate, Paul Krugman, made the point that threats of an impending recession in the UK were wrong though he went on to say that ‘economists have very good reasons to believe that Brexit will do bad things in the long run’.²⁷

A broader issue for speculation and measurement is that voters were not persuaded by the arguments that there was a significant economic downside to leaving the EU, when they compared this to arguments about the control the UK would gain in areas like immigration policy. In one poll a majority of voters either did not trust the economic ‘experts’ or accepted what they said and still felt that, for other reasons, voting to Leave was more important.²⁸

2.3 Speaking to Key Informants - What we have been told so far

Derry City and Strabane District Council and Donegal County Council have been involved in a wide ranging consultation exercise to obtain the views and opinions of those in the education, health, business, agriculture, aquaculture, tourism, retailing, financial services, logistics, Community, Voluntary and Social Enterprise and the construction sectors.

During the time period August to February 2017 a series of meetings have been held in venues across the region with individuals, representatives and groups. This included the December Strategic Growth Conference at which 160 people from across the Region had the opportunity to hear presentations from a range of experts working in the field of economics and law on the possible implications of Brexit upon this Region. The conference included a panel discussion with academics and business people followed by a question and answer session for those attending.

In total we have engaged with well over 400 people to date who have had the opportunity to input into the process through a variety of platforms including social media.

It is the two Councils' intention that this process will continue throughout this next period as preparations are made for the UK to exit the EU.

Below we outline a range of the opinions expressed during this process. It should be noted that the opinions are those of the consultees and do not necessarily reflect those of DCSDC and DCC. Some of the respondents did not wish to be identified and we have adhered to their wishes on this matter.

Education

“ Significant numbers of our students come from all over Donegal to our College in NI. They do so because to access the same range of courses that are available here would require them travelling over a hundred miles within the Republic of Ireland. We are presently working very closely with our partner institutions in the Republic of Ireland to enable our NI students to complete their degree courses there. This collaborative approach is of great benefit to the students, in terms of the cost to them, as well as assisting the Colleges in recruiting more students. This will improve the pool of skills as students are more likely to remain here post qualification when they study locally rather than studying elsewhere, e.g. in Belfast, Liverpool or Dublin. ”

Other issues

- Will students from NI be able to access student loans to attend third level courses in RoI?
- Will their student contributions (fees) be covered by student loans?
- Much debate has taken place regarding the recognition of equivalent qualifications between RoI and NI with respect to third level entry in RoI - will the present pilot scheme which aims to increase the numbers of NI students in RoI colleges persist?
- Will we have access to the ERASMUS student exchange programme in NI?
- Will we be able to access Horizon 2020 and find partners?
- Will research staff from academic institutions be able to travel freely across EU and UK.

Health

Our co-operation in the area of health within the North West predates the Single Market or EU entry. The new Radiotherapy Unit in Altnagelvin will provide care for over 400,000 patients from the North West of NI and an additional 110,000 patients within Donegal. The ability of patients from Donegal to travel to the Unit, within an hour in most cases, will improve immeasurably their quality of life when accessing radiotherapy and chemotherapy services. The critical mass of patients that a collaborative approach by the two governments can provide makes the provision of new locally based services viable for health services on both sides of the border.

The service in NI has concerns that any restrictions on travel whether through simple congestion at border posts or the requirements for work visas will lead to a loss of some of those staff who presently commute from RoI from the health service into NI. In addition, any loss of recognition of qualifications on a cross border basis would make recruitment to NI difficult on an EU basis.

Other issues

- Would locums still wish to travel from RoI to NI if there were difficulties in sourcing insurance? Would non-EU nationals who have visas to work in EU require additional visas to work in NI?
- Within the sphere of research will institutions be able to share data outside of the EU e.g. academic institutions in RoI with NI research centres?
- Will those attending A&E be required to provide proof of identity and residence as is the case already in some parts of England?
- How will Brexit affect pensions of health workers travelling within NI and RoI during their careers – what about National Insurance contributions?

Tourism

Within the last five years we have as an industry invested heavily in promoting the North West through Derry-Londonderry City of Culture 2013, the Wild Atlantic Way and a series of bespoke campaigns around food and recreational activities – e.g. Clipper, and sub-regional marketing within Donegal and Inishowen. It is now paying dividends with record numbers of visitors across the North West. This needs to continue and the borders need to remain open to allow the tourism industry to reach its full potential. The strength of Sterling up until mid-2016 saw an increase in visitor numbers to the Republic of Ireland from GB alongside a general uplift in tourism within the DCSDC area (record levels of hotel occupancy in July/August 2016).

However, the rapid decline in the value of Sterling vis-à-vis the Euro (August 2016) has seen a slowing in tourism spend post August 2016 within Donegal with a corresponding increase in numbers of visitors to NI.

The continuing differential in VAT between RoI rate of 9% and NI of 21% in the area of tourism is of benefit to the sector in RoI but negates to some extent the benefit of the weakness in Sterling within NI.

Other issues

- Dislocation of tourism campaigns such as Wild Atlantic Way, which bring a benefit to all of the North West City Region.
- Is it possible that visitors to NI from RoI (if they are non-EU nationals) will require tourist visas?
- Will tourists be dissuaded from travelling through NI to Donegal from RoI as happened during the troubles?
- Will there be physical impediments to travel – border controls which will negatively affect numbers travelling through NI?

Enterprise

Any barriers to trade whether they be border controls, form filling (whether e-forms or not), or time delays in crossing the border will impose additional costs on business that other areas of the EU will not face.

Will those exporting through NI, Britain and on to Europe be faced with increased 'red tape'?

How much time will it take small firms who have no specialists in the area to complete customs declarations take. This will affect us regardless of whether they are in electronic format or not.

Our business has some experience of exchange rate 'buying forward' but this is extremely limited - currency invoicing and matching are concepts that we know little about and have no one within the company that can advise on issues such as these.

For our company with offices in Dublin and Donegal will non-EU staff be required to obtain a visa to travel from ROI through NI to get to office in Donegal? Although this sounds unlikely our staff are already asking questions such as these.

My firm presently is insured by one company for all our offices in the UK and Ireland. I have been advised that this may no longer be possible post-Brexit? I am worried this will impose additional costs on my firm.

At the minute the lack of information/uncertainty is negatively affecting investment levels - while there is much talk of the relocation of firms from London to Dublin there is little supportive evidence of actual moves.

Other issues

- How will any proposed reduction in Corporation Tax within NI affect ROI?
- What if UK (not NI alone) post Brexit matches the Irish Corporation Tax rate?
- Will imported inflation begin to erode the cost competitiveness that comes with a decline in the value of Sterling?
- Will the UK impose barriers on EU firms who wish to tender for UK contacts i.e. have a preference for UK companies
- Over time will there be a divergence in the harmonisation of standards - as UK fails to implement EU legislation resulting in reduction in access to EU market?
- Will there be a difficulty in recruiting specialists from outside the UK?
- Fear of trade and tariff barriers
- Cost of trade barriers
- Goods branded as EU goods will be lost
- Enterprise Zone within NI?
- Enhanced Capital Allowances
- Productivity/Competitiveness how to improve
- Cross-border Common Trade Area
- Cost of Energy will impact on costs post-Brexit
- Questions relating to Single Energy Markets

Construction

Within NI at the minute there are insufficient large capital projects to keep the largest firms employed, many are in England and Scotland working on large infrastructure projects and you can see this if you fly out to Britain on a Monday morning with many workers commuting there. We would like to see greater spending here and it has been promised but it is not enough. There are already problems around recognition of the NI Construction Skills Register Cards (CSR) in the Republic of Ireland and I am also aware of problems with the equivalent cards from the Republic the Solas Card not being recognized in Britain. Any restriction on workers travelling to the Republic would affect the construction sector massively, we want to see an 'open border'. The other big issue for us would be procurement regulations for companies outside the EU, while we welcome any reduction in red tape that Brexit might bring, how will it impact on us bidding for work in the Republic or elsewhere.

Other Issues

- EU structural funds – possible loss of this very important for sector
- There is a need for finance for infrastructure possibly European Investment Bank
- Need for specific NI Infrastructural investment fund
- We believe access to single-market critical/essential for firms to survive and prosper
- NI companies may have to look at joint-ventures with Portuguese companies who have capacity – less likely that this would happen with Polish companies
- Connectivity major issue – poor roads constrain development
- Skills shortage is an issue and the apprenticeship levy is not welcomed as we are already paying a levy through CITB
- Projections regarding housing need as contained within HGI are inaccurate and need to change

Traded Services

Will there be a requirement on our legal firm who presently export their services into RoI/EU to have a legal presence in RoI? There are obviously substantial costs to us if that is the case.

- Cross Border tax/insurance – how will this work?
- Opportunities for back office – London overheats – lower costs
- Open office for DCSDC and DCC in Dublin/London

Retailing

“ The last decade in retailing has been full of ups and downs... the boom in consumer spending which peaked around mid-2009 saw border retailers in Northern Ireland and the Republic of Ireland do very well but following the economic recession in the Republic and cut backs in spending in NI we then went through an extremely difficult period as consumer confidence on both sides of the border was very low. Periodically as the exchange rate weakens here in the Republic we see an upsurge in shoppers to Donegal but it is difficult to rely on the effects of something we have no control over.

We began to see in late 2015 some increase in consumer spending within ROI as the strength of the Euro vis-à-vis Sterling drew shoppers South again. However, this effect was short lived as the impact of the rapid strengthening of the Euro post the EU referendum hit retail sales within the Republic of Ireland with a corresponding rise in purchases by ROI citizens in NI.

It's true to say that we welcomed the slight fall in the value of the Euro in relation to sterling which did much to lessen the numbers heading North to shop and it did not impact as much as we had anticipated, there seems to be a degree of improvement in consumer confidence within Donegal, despite the referendum result which will help us.

In NI while there has been an improvement in sales, investment decisions, particularly by national chains have been put on hold until we know much more about what Brexit means for those in border retail. The uncertainty associated with Brexit means that they cannot be sure of a return on their investment, this is particularly the case here on the border where the extreme volatility of the currency changes makes even short-term planning difficult.

Things like the VAT rate in the Republic for Tourism also affect us and shoppers head South on mini-breaks including shopping as the VAT rate gives them a price advantage on accommodation and eating out. ”

Issues raised

- Over time NI retail cannot be reliant on competitiveness driven by depreciation of the currency as this is not sustainable and inflation is returning with clothing and footwear prices already showing increases in Dec 2016.
- Need for regional (cross-border) retail marketing campaign to attract visitors, shoppers and day trippers to the area.
- Any restrictions on the ability of shoppers to travel cross-border or to import goods will be extremely damaging to the whole region.

Fishing - Ireland

“ The fishing industry in the Republic of Ireland contributes a lot to employment in Donegal and we are very concerned that our voice will be lost in the clamour that surrounds Brexit and any negotiations that will take place between Dublin, Belfast, London and Brussels. There are 2,600 employed in North and North West in aquaculture, fishery and processing with 26 seafood processing companies in the North region, that is a lot of wages going into this area which are at risk, some idea of the impact is that €81m of fish is landed at Killybegs.

If we don't get continued access to those zones within British waters then we will be in a very difficult position as much of our catch comes from these areas, 70% of our stocks are presently accessed are within GB zone (off Shetland Coast) and to the South West of Britain.

At present the Total Allowable Catch (TAC) is set each year and countries have a set percentage of this – thus as the TAC increases the amount that can be caught increases but not the share. We are worried that as Norway and Greenland have bi-lateral agreements with EU – in the future Ireland could lose out. ”

Issues Raised

- Access to fishing areas
- Potential share of TAC – post Brexit competing with rest of EU in smaller fishing grounds
- Not able to swap fish post Brexit
- EU negotiation with UK – UK will have upperhand as previous 1977 agreement suits them – Ireland then only 1 out of many – Spain, France, Denmark
- Hague Resolution 1976 provided an extra share for underdeveloped regions – UK and Ireland – this will be lost
- Issue of migratory stocks that other countries can potentially overfish
- Crab industry at risk as well – 60% of Ireland's Brown Crab landed in Donegal Post-Brexit then no access to UK to store and land discarded fish
- Labour mobility – visas may be issue with UK fisheries, boats that are registered in UK but foreign owners – what is likely to happen now post-Brexit when GB will have more flexibility to enact legislation
- Cross-border travel with product e.g. from Donegal through NI to Dublin etc. could be adversely affected by any restrictions on cross border freight
- Much of the legislation post-Brexit will be governed by extra-EU agreements e.g. Law of the Sea, Advisory Councils

Fishing - Northern Ireland

In general within NI those involved in fishing have adopted a wait and see attitude, if there is a reversion to the previous agreements pre-EU entry then they would favour that approach. Access to EU markets is critical to Northern Ireland with two thirds of fish exported from the UK, going to the EU.

Future access to the Single European Market is seen as essential if the fishing industry is to prosper within NI.

Agriculture - Ireland

“ The Dairy industry has been under severe pressure already as the price fell in the last year but the whole industry has changed with the majority of milk in NI exported for processing to the Republic of Ireland. I don't think those people suggesting border controls understand, at all, the numerous crossings that there are between Donegal and NI. Many farms now cross the border owning buildings and fields on both sides, how will that work? Much of the beef that is produced here goes direct to England for processing, where will the NI processors get their beef from or their workers if they introduce border controls or quotas or tariffs?

We are already suffering depopulation in the West of Donegal, this is going to make us more isolated and make this worse. As sheep are mostly in West of Donegal with Cattle in East, then depending on which sector is affected most - East may suffer more. ”

Other Issues

- Beef labelling key issue with foreign meat processed in Ireland labelled as Irish beef.
- Will there be a hard border at seaports and airports?
- Those involved in other agri-food products such as cheese have also lost significant market share in the UK market for the same reason as mushroom producers.
- Any border delays will impact significantly on produce that has a short shelf life.

Agriculture - Northern Ireland

- Dairy industry under severe pressure already - majority of milk in NI exported for processing to RoI - what will happen processors in RoI/Farmers in NI post Brexit. Much of the specialization in milk processing results in products traveling cross border at different stages of production process.
- Beef processors are already worrying about supplies of beef from RoI post-Brexit and their ability to recruit labour from outside UK.
- Any border delays will impact significantly on produce that has a short shelf life.
- Firms involved in beef processing, packing of fresh produce such as fruit and vegetables are heavily reliant on migrant labour, will this be still be available post Brexit.

Logistics Ireland

Our company is involved in moving goods from ports in NI through to RoI and vice-versa. Any border controls will impose additional costs on us as carriers that we will have to pass on to our customers. This is regardless of whether they are electronic controls or vehicles being stopped, any time delay costs money. On a daily basis 45 lorries travel through Bridgend to the Lisahally Port every day and others to Belfast for one contract. If controls were introduced then the quickest time to process required documentation for such movements would be ten minutes and that would be exceptional...it could take half a day. For 60,000 tonnes that would involve 2,400 truck movements and at the record clearance time of ten minutes that would equate to 400 hrs...with regulations requiring that ten hours is the maximum working day for a driver that would result in 40 idle days costing about 24,000 euro loss of earnings for the truck. This should give some idea of the risks involved to business in Donegal.

For my business (Courier Company) which relies on being able to deliver anywhere in RoI/NI within 24 hours and increasingly within the day ordered, how will border controls work? Will I need to set up a base in NI? ”

Logistics - Northern Ireland

Other Issues

- Could non-EU nationals who have visas in the Republic drive through NI to Donegal or to Dublin?
- Would trucks have to go through Sligo to get to Dublin at a significant additional cost? If so, who would bear the cost?
- Restricted number of entry points to NI could result in traffic congestion particularly on the A2 in Derry at Buncrana Road and the N14 Lifford/Strabane crossing.

Community Voluntary and Social Enterprise Sector

“ We have benefited in this Border region over the years from a variety of EU funds from a range of sources. These include ESF, ERDF, Peace I-IV and Interreg. Much of the Community, Voluntary and Social Enterprise sectors are dependent on these resources to continue to provide our services including training, employment support programmes, counselling and reconciliation work within some of the most disadvantaged areas within these islands. It is well recognised by government that the partnerships which have developed between the public, private and the CVSE sectors are amongst the strongest and effective in delivering services to those on the margins. If this EU funding was to cease then we need strong guarantees from government on both sides of the border that the funding gap will be made up by other resources. These projects bind together these communities and if governments’ stated policy of social inclusion is to be meaningful then they need to step up to the mark in this regard. While the EU Peace Bridge physically embodies the benefits of EU funding many more projects continue to work in the background on assisting vulnerable groups and individuals to address the issues that they have, as well as to transform the lives of many through innovative programme made possible through EU funding.

Any reduction in support as a result of the UK’s exit from the EU would be extremely detrimental to the socio-economic fabric of these communities and to individuals who are dependent on it to ensure the valuable contribution that they are now making to society continues. The governments must recognise the unique nature of this region and plan now to address this post-Brexit scenario. If they do not then the most vulnerable within these communities will suffer most from the withdrawal of EU funding. We need clarity now on both governments’ position on the matter as well as Brussels who have invested so much here with such positive results. ”

Other Issues

- Sustainability of projects without EU – will central government fill gap – will it come out of NI block grant?
- Match funding
- Will some programmes be safe but others stopped
- Training and skills levels central to economic progress in region – how will this impact on ESF CVSE also educational institutions
- Who will decide what projects will survive and on what criteria?

3.0 The North West City Region Economy

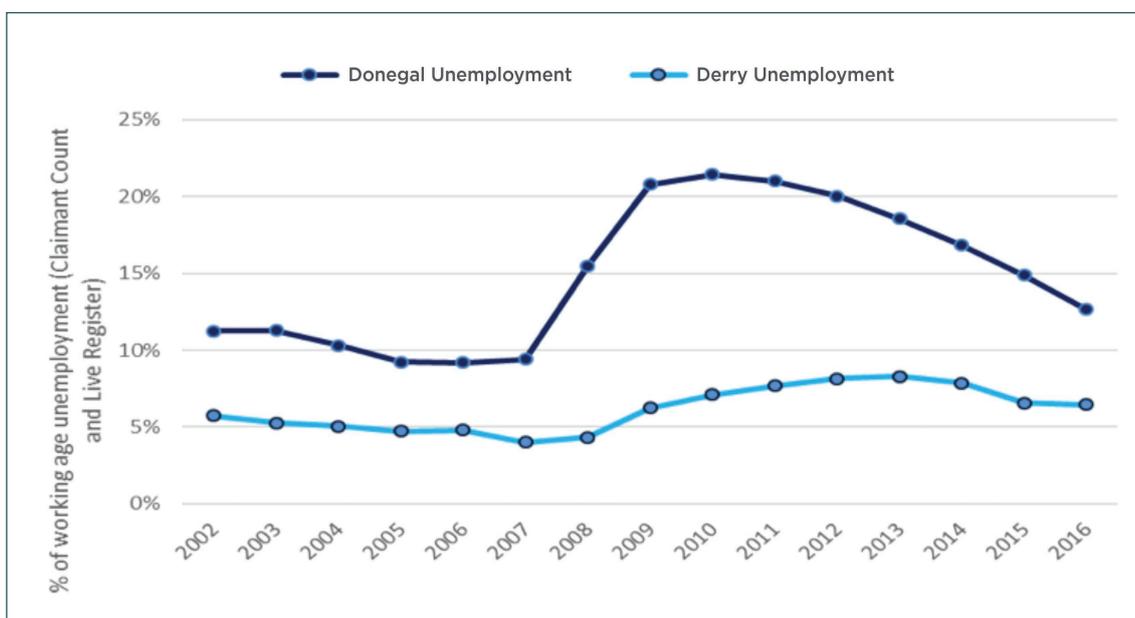
At a joint conference organised by the two Councils on December 2016, delegates heard about the challenges of delineating the economy of the NWCR as a unit due, in the main, to a lack of complementarity between datasets.²⁹ Creating a clear economic picture of the region or indeed providing an unified economic forecast for it is a work for further research. This section will briefly outline demographic, labour market and enterprise profiles and draws some general conclusions on the economy of the region.



3.1 Labour market

Unemployment rates, as shown in Figure 7, are recovering although they have not yet reached pre-recession levels. Inactivity rates in DC&SDC tend to be higher than the NI average (32.9% against 27.1% in 2015) and to some degree explain the differences in the measured rates of unemployment, while labour participation rates in Donegal lag behind the Republic's levels too (58.1% as against 61.9%). For those in employment the sectoral profiles are also similar with the public sector and retail dominating and almost half of those working employed in these sectors in both council areas. One major difference in the sectoral profiles is the greater importance of agriculture in Donegal which has a share of 8%, twice that of DCS&DC. Some of the difference can be explained by the much larger numbers of farms in the two areas but also their larger size (12% have 20+ hectares in DC&SDC compared to 48% in Donegal).³⁰

Figure 7: Unemployment rates in DC&SDC and Donegal, 2002-2016



Sources: NISRA Claimant Count and CSO Live Register.

3.2 Business demography

The data suggests that there were almost 15,000 businesses active in the NWCR in 2014 with a 70:30 split in these towards Donegal. Agriculture accounts for around 30% of enterprise numbers with other large shares for retail, hospitality/accommodation and construction. In terms of size, 90% of the enterprises are 'micros' (employing less than 10 persons), which is in line with the NI/Republic averages. However, while Donegal has only a slightly smaller share of large enterprises (employing more than 250), the share of total employment in these is much smaller than the average in the Republic of Ireland as a whole (7% as against 34%) with small businesses being much more labour intensive.

3.3 Considerations

One of the key issues of concern is the peripherality of the North West region, not only within the European context but also within the island of Ireland.³¹ This peripherality can only be addressed by a wider integration of the economy of the NWCR into all-island, UK and more global networks (or clusters) as well as the most optimal levels of connectivity to assist in that process. Part of that process will be the work of the two Councils seeking to make the most of the agglomeration effect and significant critical mass, which the North West City Region brings.

However, as noted by Martin Wolf of the UK economy, Brexit will not be merely a cause of problems, it will also highlight those weaknesses and vulnerabilities that already exist in regions.³² When looking at the NWCR there is a heavy reliance on the demand-side of the economy in the shape of shoppers (sometimes cross-border), tourists and public sector expenditure. Weaknesses which exist on the supply side, such as low productivity in businesses, lower levels of innovation and R&D or poor skills profiles will also be highlighted in any economic shift which results from Brexit. Capability, as well as connectivity, needs to be highlighted in any response to the risks and opportunities posed by Brexit.

There is also the issue that Brexit raises different levels of immediate concern in DC&SDC and Donegal, in terms of the economic impacts. For example, the weakening of Sterling (down at one stage almost 20% against the Euro and at its lowest level for 31 years against the Dollar) produced quite different responses among retailers, exporters and tourism operators who have been consulted for this report, depending on which side of the border they trade.

Finally, it can be argued that Brexit will have a differing impact on the economy of the North West, depending on the sector, size and ownership of businesses, but also poses an internal and an external challenge given the importance to the region of both cross-border and off-island flows. These are considered in the next section.

4.0 Initial areas for consideration for the North West City Region

Within this section of the report we will present a short sectoral review. These include Trade, FDI, EU Funding, Migration, Tourism, Consumer Spending and Border Management.

Figure 8: Potential areas of impact from Brexit



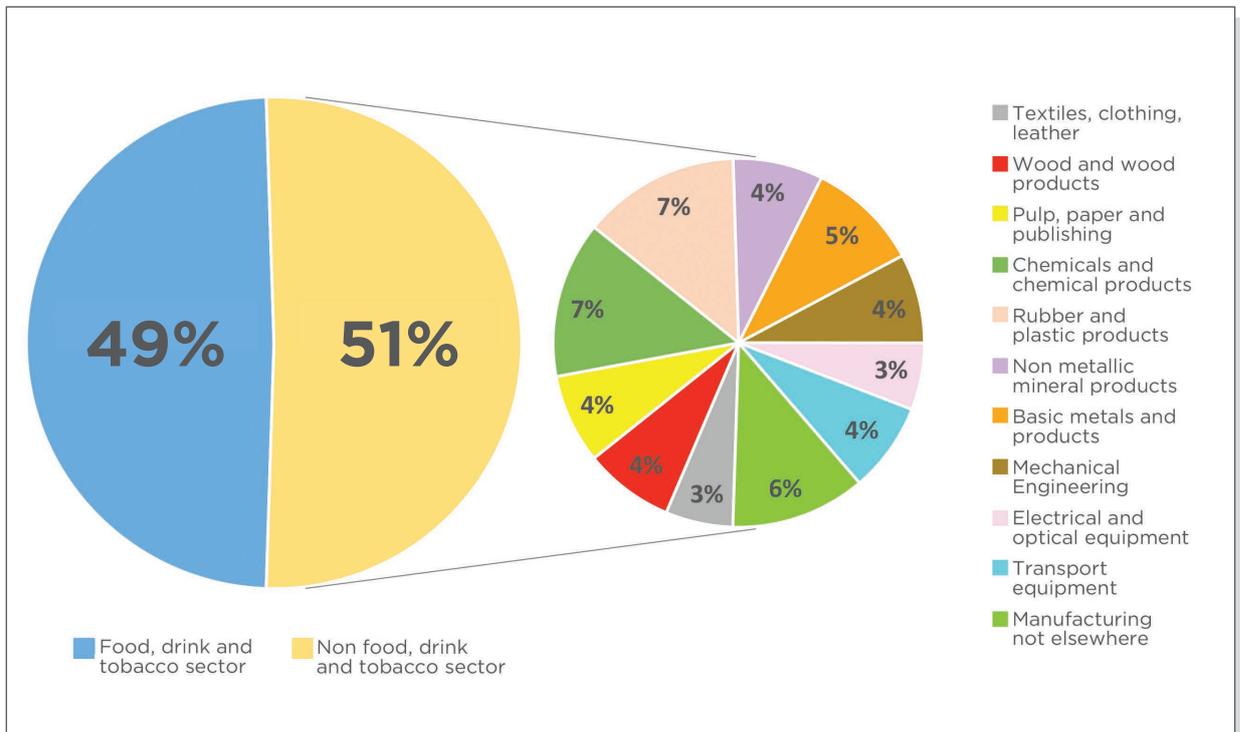
Sources: UUEPC

4.1 Trade: Cross-border and exports off the island

The total cross-border trade in goods in 2014 came to just over €3 billion and has shown four years of growth after a sharp recession between 2007 and 2010 when almost a quarter of the trade's value was wiped off.³³ However, it should be noted that the importance to the two economies of NI and the Republic of Ireland of cross-border trade is quite different and thus the potential impacts of Brexit are asymmetric. In short cross-border trade is of much more importance to the aggregate NI economy and firms than to that of the Republic of Ireland. While goods trade accounts for less than 2% of Ireland's total exports (or less than 1% of GNP), the combined cross-border sales of goods and services from NI accounts for approximately 10% of GVA. Although cross-border trade accounts for around a sixth of small firms' exports from the Republic, this is still dwarfed by the share in NI: two thirds of export sales.

While trade data is more difficult to assess for local areas, this asymmetry continues at a reduced level in the North West. Given the proximity of large parts of the Donegal County Council and DC&SDC Council areas to the border (54% of Donegal's border is with DC&SDC), cross-border trade is an important element of the local economy and probably reflects a level of economic integration not found further away from the border. For example, the InterTradelreland Business Monitor records that 34% of firms in the DC&SDC area and 38% of Donegal's are engaged in cross-border trade compared to 25% on the island as a whole. The percentage of their total output sold across the border is also much higher than the Island's average.³⁴

Figure 9: Sectoral share of cross-border goods trade in 2014



Source: InterTradelreland

As Figure 9 shows, 60% of cross-border trade is dominated by three sectors (Agri-food, chemicals, building materials) which are among the sectors which the Irish government found were at highest sectoral risk from Brexit in their analysis. Analysis of the HMRC data for 2015 shows that 69% of NI's Agri-food exports went to the Republic of Ireland in that year and 85% of exports of building materials. This suggests that particular sectors and, indeed, regions are more likely to be exposed to risks to cross-border trade than others and that this will need to be taken into account in any consideration of the issue.

Moving to exports off the Island, the UK market assumes much greater importance to the Republic of Ireland. In 2014 the Irish Department of Finance estimates that 17% of its total exports went to the UK (including NI). Moving to the Southern Border Counties (one of which is Donegal) the share of exports going to the UK rises to 29%, much higher than the national average.

However, these shares are dwarfed by the importance of the EU to NI exporters. In 2014 22% of NI's total exports went to other EU member states than the Republic, giving the total EU market a 58% share of all NI exports.³⁵ Invest NI data for exporters in DC&SDC and Causeway Coast and Glens Council suggest that at least a third of exports there go to EU markets, with more than half of this going to the Republic of Ireland.³⁶

The December conference heard that, in a gravity model of trade, proximity tends to lead to greater levels of trade.³⁷ The levels of firms in the North West engaged in cross-border trade and the importance of the GB market for exporters from both Donegal and DC&SDC tends to support that. Moving along the export pathway to other more distant markets increases trade costs for businesses and any additional barriers caused by a 'hard Brexit' would increase these, making necessary diversification more difficult.

Trade issues for consideration in the NWCR:

- There is a need to **better understand the sectoral exposure** in the NWCR. Although the initial consultations have shown that the Agri-food sector is a key one in both council areas, in terms of employment and numbers of firms, more analysis is needed to show how concentrated both Donegal and DC&SDC are in other risk-exposed sectors (traditional manufacturing, pharmachem, materials manufacturing), as well as what the particular sectoral needs might be.³⁸
- One area of **key information deficit is how trade moves between these islands and onward elsewhere**. Consulting with businesses, Londonderry Port and freight forwarders will be critical to understand the role of logistics and global value chains in what impacts Brexit may have on trade locally.
- While there is an understandable current focus on the short term impacts of currency fluctuation (although a point was made at the December conference that supports for managing volatility risk were not being taken up), there is a continuing need to address **the longer term issues around diversification and pathways to exporting**. It is useful to note that the Republic of Ireland has reduced the share of its exports going to the UK from 50% in 1973 to around 17% in 2015, but the dependence on a small number of geographic markets on both sides of the border is again highlighted by Brexit and is something which needs continually to be tackled perhaps by supports to make first time exporting lead on to other new markets.
- There also remains the issue of **too few exporters**. This is similar on both sides of the border with more than two thirds of firms not selling outside their local markets. Brexit or not, supports to diversify the export base (through the development of new and innovative products / services which can be sold beyond the local market) are as necessary as those to support businesses to move beyond a dependence on one export market.
- Related to this is a need to **better understand the trade dependencies at the enterprise level**. Currently the available evidence provides only a broad sweep of sectoral and some regional risk exposures and the consultations suggested that there are clear differences in orientation and market strategies perhaps between FDI and indigenous firms, as well as large and small firms. Understanding how Brexit may impact on individual market decisions by firms will be crucial to local economic development planning.
- Finally, the **opportunities to further integrate all-island supply chains, in particular in the Agri-food sector** (e.g. Irish firms currently control 60% of NI's dairy processing capacity) need to be explored, particularly in areas close to the border, and perhaps assisted where regulatory issues arise.
- Above all, there is a need not only to understand how cross-border trade will work under a "hard Brexit" at a regional level but to try and shape this in the forthcoming negotiations.

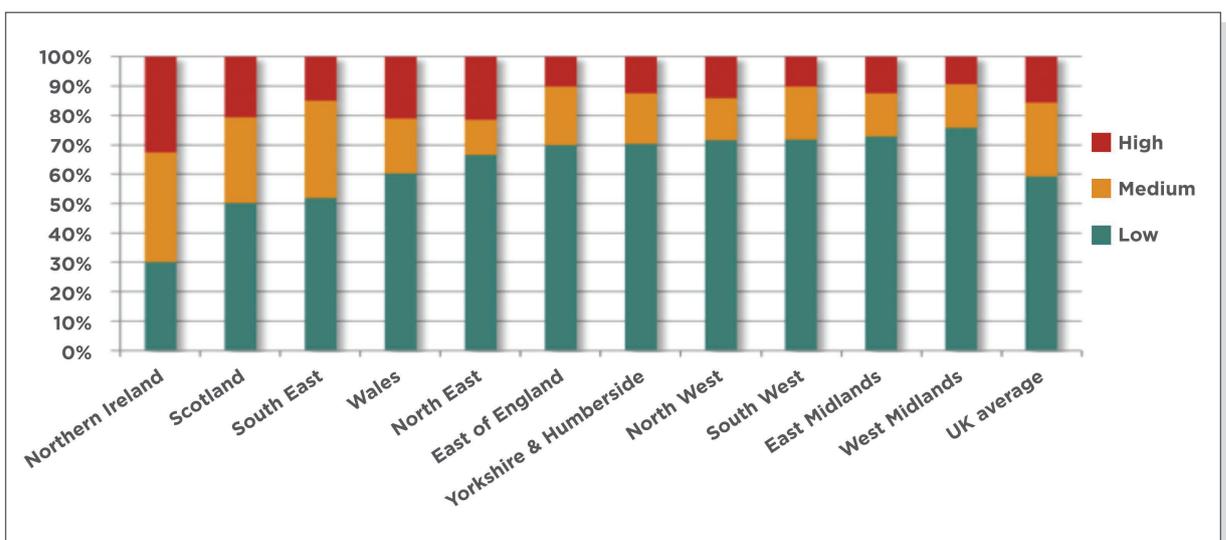
4.2 Foreign Direct Investment: A Success Story?

FDI* firms are a key element of economic growth in the North West City Region. Invest NI data shows that externally-owned firms have created 1,469 jobs since 2010/11 (8.6% of the NI total) in their North West region with software & business services firms accounting for most job creation. In terms of the origin of new FDI (£113m since 2010/11) for the North West, the highest share (75%) came from North America followed by the Republic of Ireland (12%), Japan (10%) and GB (2%). The rest of the EU comes to 0.5% suggesting that the North West is not a key location choice for EU-originating FDI seeking a gateway into the UK market with the exception of Irish firms.

In Donegal 1,336 jobs were added by agency-supported foreign-owned firms between 2006 and 2015 (an increase of 59% to 3,591), with 69% of the jobs created in internationally traded services, notably in Letterkenny.³⁹ This compares well to the Border Counties (an increase in employment of only 0.6% since 2006) and the Republic more generally (12% higher than in 2006). Donegal has seen a similar shift from manufacturing FDI to tradeable services which has occurred throughout the Republic where the latter has grown from a 44% share in 2006 to 66% in 2015.

The job creation record of foreign-owned firms located in the North West has been something of a success story in the recent past. With an expectation that we are likely to continue to (overly) rely on FDI to drive employment growth in the area, the locational choices in the light of Brexit are likely to come under scrutiny. Recent research⁴⁰ on locational choices for FDI in EU countries (including the UK) shows that corporation tax levels are the most important factor, particularly for businesses in services sectors and for investment from outside the EU. However, other important factors include market size, access to the Single Market, proximity, similar language and production costs. This suggests that investors, especially in services or from outside the EU, may find the Republic of Ireland to be an attractive alternative to the UK, even in the case of equal corporation tax rates. In terms of Northern Ireland, the prospects for FDI are more mixed depending on whether there is a 'hard Brexit' or if the UK remains in the Single Market (now increasingly unlikely). In the case of the latter scenario FDI specialists have estimated that as much as 70% of FDI in NI is at a 'medium or high' risk as it is more likely to serve the EU rather than the UK market.⁴¹

Figure 10: Risks to FDI employment in UK regions in event of not retaining membership of the Single Market

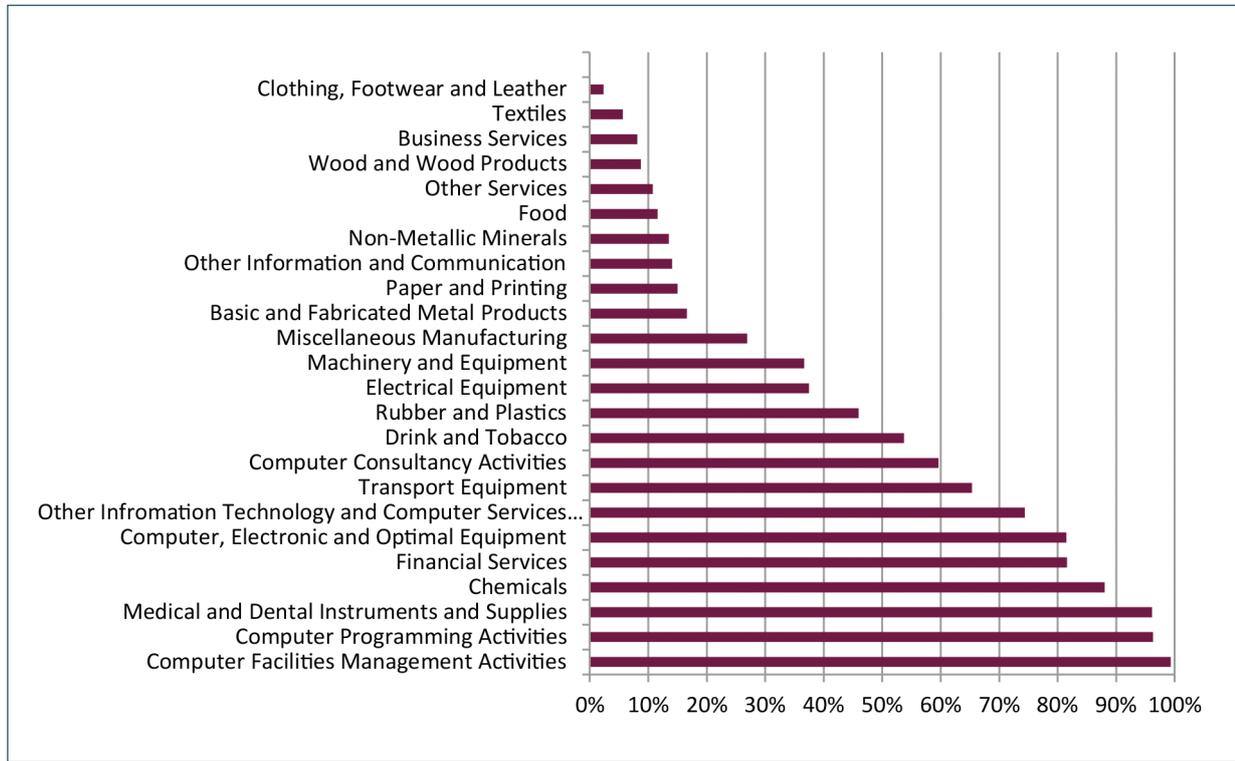


Source: WavTeq, The impact of Brexit

*FDI defined loosely given that the cross-border region comprises two jurisdictions

In general, within ROI those sectors which are predominantly foreign owned are less sensitive to the potential effects of Brexit as they are more geographically diverse in their exports. Conversely, indigenous firms who are more likely to be in the traditional sectors e.g. clothing, footwear, textiles and the fabrication of metal products have a lower propensity to export and where they do it is more likely in the first instance to NI and then to Britain.

Figure 11: Shares of employment by sector in foreign-owned firms in the Republic of Ireland, 2015



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

Figure 11 (above) thus provides a proxy measure of Brexit sensitivity applicable to Donegal.

FDI Issues for consideration in the NWCR:

- **Locational choices for FDI** from ESRI research across the EU definitively come down to lower Corporation Tax rates, market size, access to the Single Market, 'proximity' to the investor, low costs and high R&D capacity
- For NI a **decision whether or not to reduce CT to 12.5%** needs to be made quickly and will need to be combined with a proposition around market size being the UK market, costs and R&D/HE strengths
- For Donegal policy certainty around CT rates, access to the Single Market, and growing strength of the R&D base will be a key requirement.
- For the North West as a whole **connectivity needs to be improved** as does business innovation and market size will need to be addressed raising the opportunity for a **dual market focus** for the North West where FDI increasingly becomes a 'win-win' for the region.

4.3 EU funding: Crucial to the third sector and rural development

Access to EU funding has been raised as an important element within the debates on Brexit, although it should be noted that many of the English regions, as well as Wales, which have high amounts of EU funding, voted to leave the EU. However, it has been enough of an issue in Northern Ireland for the UK Treasury to need to issue reassurances about project funding that is in place being supported in the interim.

The need for such reassurances are clear given the estimate from the European Commission that €3.5 billion has been allocated to NI programmes from the EU for the 2014-20 period. €2.3 billion will be provided as CAP Direct Payments to farms and has been an essential income support for many of them (one estimate from DAERA is that the payments mounted to an average of 87% of farm incomes in NI in 2014/15).⁴² A further €251 million will be spent on other rural development and fisheries supports while funding for skills development and economic development (through ERDF and ESF) amounts to more than €500 million. The cross-border INTERREG programme will deliver €240 million and the PEACE programme a further €229 million. In sum, EU funding annually amounts to 2-3% of identifiable public expenditure in NI or 2.3% of regional GVA (second only to Scotland in these terms).

In the North West, the DC&SDC area has been a significant recipient of EU funding. In the 2007-2013 funding period among the significant infrastructure projects and community/employment programmes supported by EU funding were the North West Science Park, the Peace Bridge in Derry-Londonderry and the Rural Tourism Marketing Programme (which received almost £20m in funding). The Council area has also benefitted from EU money allocated by NI Government departments on a regional basis (e.g. c.£28m in CAP and Rural Development funding in 2015 alone) and a further c.£28m is committed from Peace IV, RDP, ERDF and ESF to 2018/2020. Finally, the higher education institutions (Ulster University and the NW Regional College) have been recipients of EU funding, from sources including ERASMUS, Horizon 2020 and other mobility/research schemes.

There is also a cross-border element to EU funding which has further developed cooperation between Derry City & Strabane District Council, Donegal County Council, and other stakeholders including businesses, community sector and civil society. For example, under the cross-border elements of the Peace I and II programmes 1995-2004) and the INTERREG I, II and IIIA programmes (1992-2006) partners in the North West took the lead in 25% of all funded projects, accounting for c.20% of funding.

In the Interreg VA programme there are hopes for further funding success and there are current bids for projects in the North West region which include c.€50m where either of the two Councils is a lead partner.

EU Funding issues for consideration in the NWCR:

- It will be crucially important to **accurately assess the full extent of EU funding across the council areas** (in addition to direct Council funding) in areas including rural development projects, economic development programmes (through ERDF and ESF), Community, Voluntary, Social Enterprise sector initiatives (through Peace, ESF, RDP, etc.), HE and FE skills, research and mobility funding (through ERASMUS, ESF, etc.) and future infrastructure projects supported by EU funding (e.g.: NW Science Park extension).
- Establishing the **extent of cross-border funding that is dependent on NI/RoI partnerships**.
- Ensuring that there is a future for some of the key projects beyond the Treasury guarantee and that the UK government will step in to replace EU funding beyond 2020. The areas to be covered (whether agriculture, community and voluntary sector, cross-border, etc.) also need to be clarified.
- Exploring opportunities for **alternative funding sources** and assessing how sustainable projects will be without EU funding.

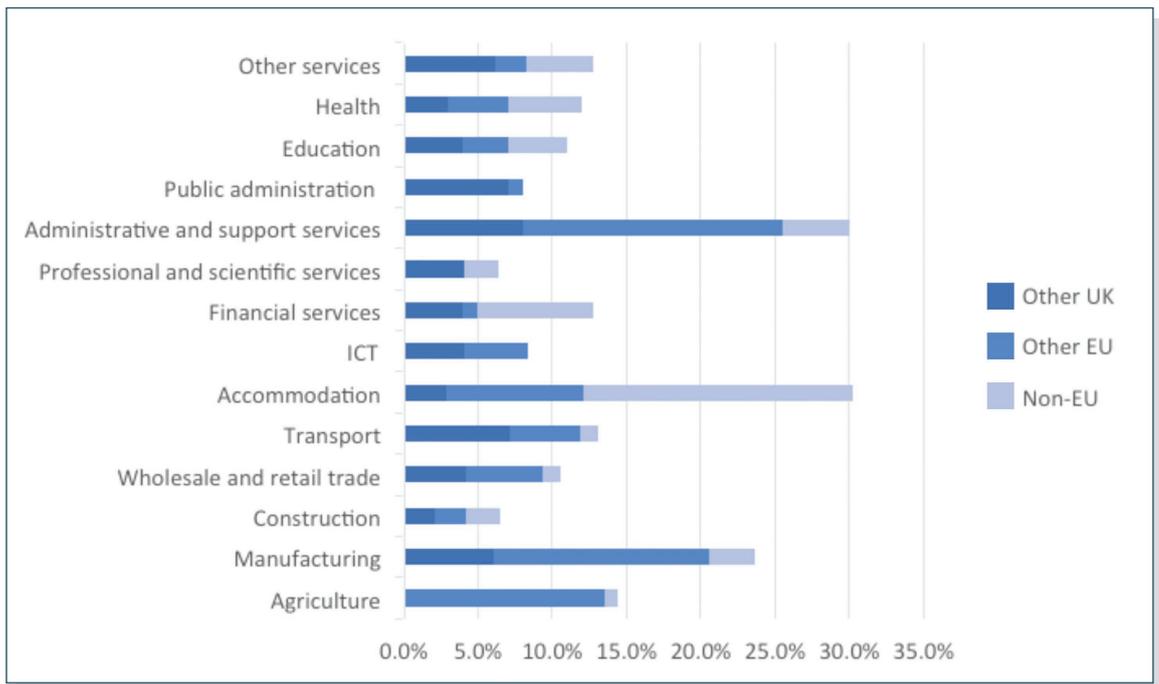
4.4 Migration: An internal and external issue

The question of immigration and discussions over control of this formed a central part of the Brexit debates and, indeed, may have been the crucial factor in influencing the overall vote in the UK. Research on the vote in NI suggest that immigration was less of a factor than in England or Wales. In NI since 2002 over 143,000 applications for National Insurance numbers have been made by overseas nationals. Demand for migrant labour, in particular that from other EU member states (which would include the Republic of Ireland), has been most important to the Administrative Services, Manufacturing and Agriculture sectors which all employ 25+% from outside NI, as shown in Figure 12. The largest actual numbers, given the sizes of employment, can be found in Health and Accommodation.

In the Republic of Ireland since 2002 there have been over 140,000 PPSN applications by foreign nationals and roughly 10% of these were allocated to UK nationals. Figure 13 shows where the sectoral demand exists with UK national found in largest shares in ICT, Administrative Services and Professional and Scientific Services. This suggest a high skills base for both FDI and indigenous firms, where employers will be keen to ensure freedom of movement for staff.

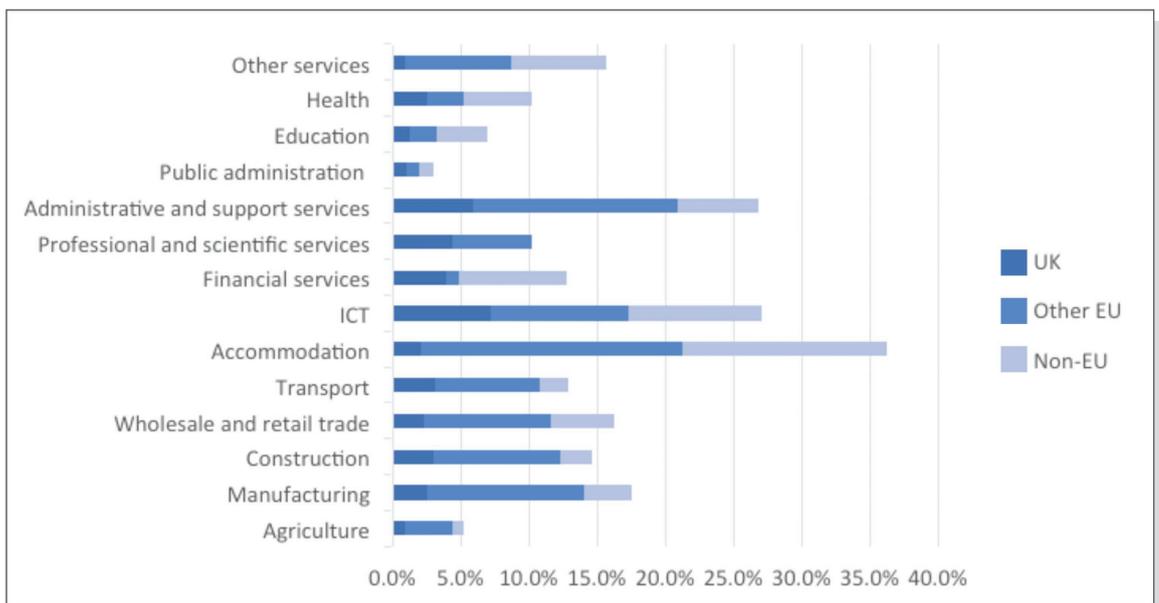
Although the CSO data is not disaggregated for County Donegal the ONS data shows that over 6,300 of the NI applications (7%) were made in the DC&SDC area, which equates to approximately 4% of the area's population. More than half (51%) of the applications have been made by nationals from other EU member states, with another quarter from non-EU countries.

Figure 12: Foreign nationals employed by sector in Northern Ireland, 2014



Source: Labour Force Survey

Figure 13: Foreign nationals employed by sector in Republic of Ireland, 2013



Source: CSO

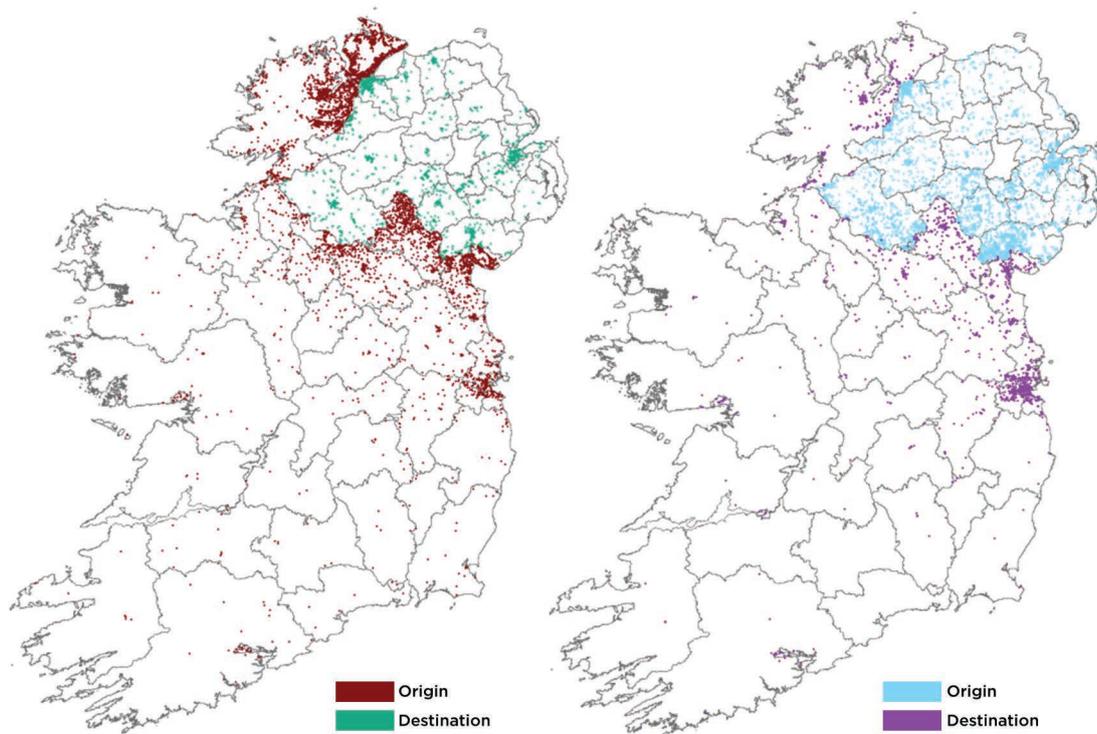
Cross-border commuting

There is considerable debate about the numbers who cross the border everyday in both directions to go to work with the 2011 Censuses having a figure of 14,800 and a study by the Centre for Cross-Border Studies estimating the real figure (by surveying employers) to be between 23,000 and 30,000. Whatever the actual level, these figures are significant and place Ireland and Northern Ireland around the EU average for cross-border commuting while GB is at a much lower level.⁴³ Most of the commuting is in a North-to-South direction, much of this along the Belfast/Dublin Corridor. The exception to this is on the Derry/Donnegal border where the vast majority of cross-border commuting is into NI with much of the numbers coming from electoral districts right on the border outside Derry City, as the map in Figure 14 shows. In one major workplace in Derry City, the Ulster University campus at Magee, 15% of the staff have home addresses in County Donegal.

Figure 14: Cross-border commuting flows, 2011

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

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



Source: All-Island Research Observatory using Census 2011 data

Work has been completed in developing a strategic response to the peripherality inherent within the existing road network between Donegal and the rest of the island. The European standard for critical road networks is set out under the Trans European Network (TEN-T) core and comprehensive road networks. The completion of the ongoing TEN-T road projects in Donegal is vital to provide the required access to the region and to fully connect the area with Belfast, Dublin and Galway together with improvement of local and cross border linkages. The Donegal TEN-T includes improvements to the Letterkenny to Strabane, Letterkenny to Derry and Ballybofey Bypass roads and together link to the major roads connecting to Belfast, Dublin and Galway.

Migration issues for consideration in the NWCR

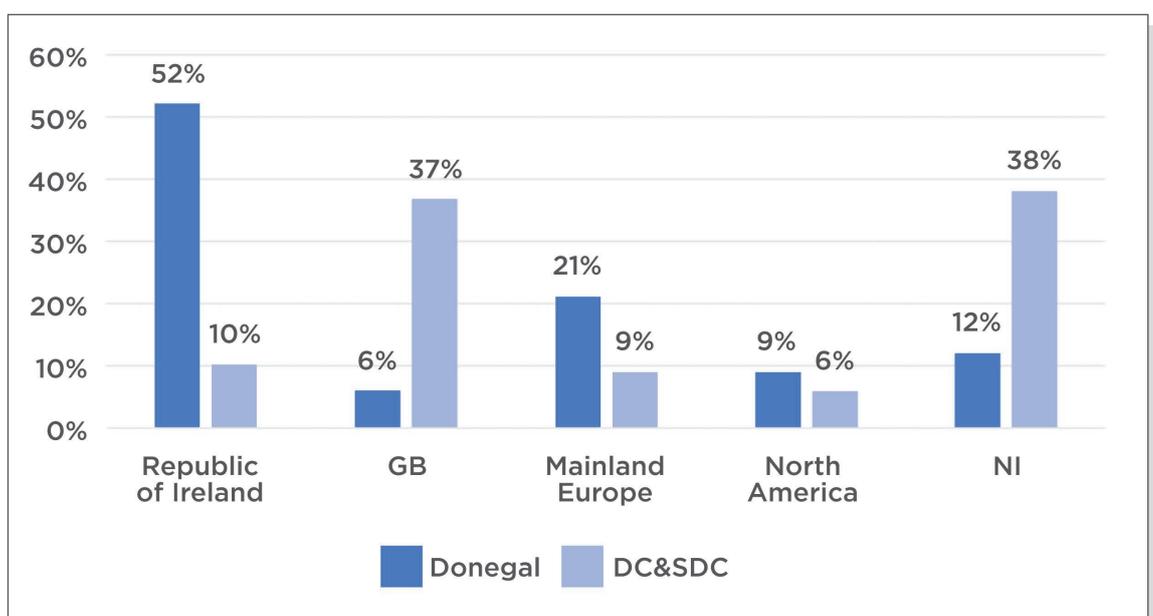
- Attracting people from outside the North West to live, work, invest and study, must be a key strategic aim for the region, whether for its local HE institutions, its FDI businesses or for its future start-up businesses.
- Policies to support skills-based migration and cross-border commuting will continue to be essential for some sectors (e.g.; Health, Education, ICT, etc.)
- The North West must agree on what type of border and migration policies will not only suit its current needs but also its future goals

4.5 Tourism: Successes but under-developed markets

The tourism industry is a very important one in the North West with approximately 7% of those in employment working in the sector, making it a similar employer to manufacturing businesses. Between Donegal and DC&SDC almost 800,000 visitors came in 2015 spending more than €200 million. However, there is a large difference between the size of the two markets with Donegal accounting for three times as many visitors and close to four times as much expenditure as DC&SDC. The 2015 figures come on the back of steady growth in recent years with the consultations reflecting an industry that feels there is potential to continue to develop visitor attractions, accommodation and looking to improving connectivity, in particular by road.

The consultations also refer to a dependence on what is described as the 'home markets' and this is detailed in Figure 15. Visitors from within the island of Ireland account for two thirds of those going to Donegal (with a high dependence of those visiting family and friends) and almost half of those visiting the DC&SDC area. The GB market is much less important for Donegal in terms of visitors, although they tend to have a much higher share of expenditure than their numbers suggest.

Figure 15: Place of origin of visitors to the North West in 2015



Sources: Tourism NI and Bord Fáilte.

Tourism issues for consideration in the NWCR:

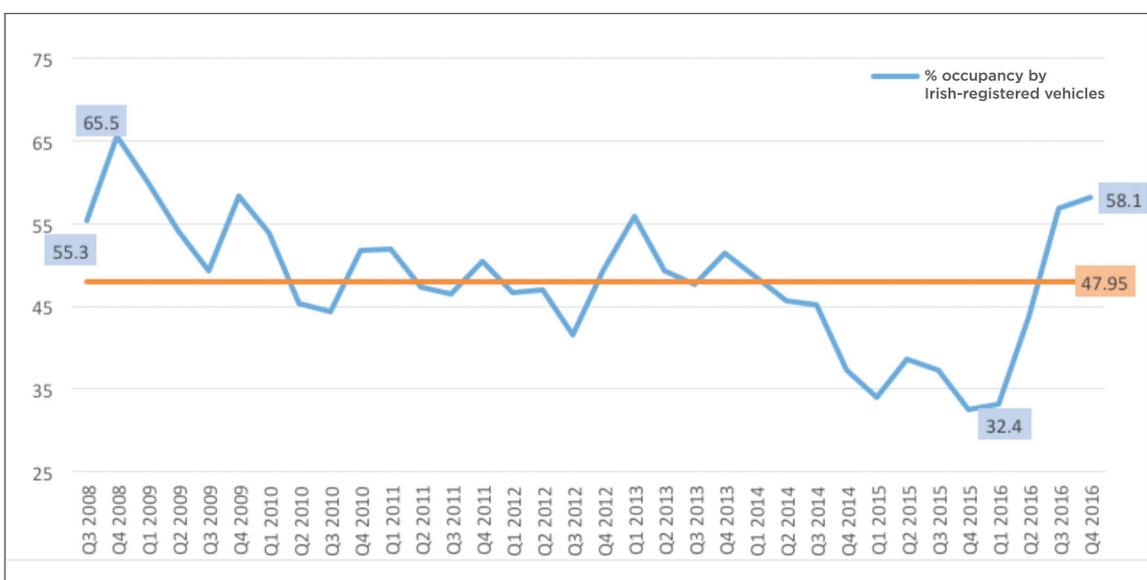
- The need to grow tourism numbers remains key – while DC&SDC has experienced good growth based on recent large events (e.g.. City of Culture 2013) and a number of cruise liners using Londonderry Port, Donegal is benefitting from the ‘Wild Atlantic Way’ promotion. However, consultations and the reliance on the island of Ireland market suggests that **both remain destinations that can be further developed.**
- A critical factor in achieving this success is to continue to grow the proportion of foreign visitors to the island of Ireland travelling north and west – in particular from mainland Europe.
- Therefore, **ease of movement across the border (or addressing any hint of difficulties of access) as well as connectivity to the major ports and airports** (Dublin and Belfast) is crucial to help realise tourism ambitions in the region.

4.6 Cross-border shopping: living with borders

The issue of cross-border shopping is never far away from the minds of people who live in border regions.⁴⁴ Well used to the arbitrage advantages that changes in exchange rates offer to consumers (and to the many cross-border commuters) there is a flourishing business for Bureau de Change outlets in towns like Newry, Derry, Letterkenny and Dundalk. Retailers also need to be acutely aware of the impact of changing exchange rates and threats to their businesses caused either by volatility or sharp rises and falls as have been seen since the Referendum. Given the importance of the retail sector in employment terms in both Donegal and DC&SDC, both having shares around 16%, then risks and opportunities associated with cross-border shopping have a broader economic impact.

Figure 16 shows the latest figures for the percentage shares of cars with Irish registration plates found in four shopping centres along the border (including one in the North West). It shows the sharp rise beginning in Q1 2016 as Sterling began to weaken before the Referendum and then the rapid rise over the following three quarters. Also noticeable is the fact that whilst the heights of late 2008 have not been reached Q4 2016 saw quite similar levels.

Figure 16: South-to-North cross-border shopping flows, 2008-2016



Orange line - Average % occupancy since 2008

Source: InterTradeIreland

Cross-border shopping issues for consideration in the NWCR:

- The exchange rate fluctuations are nothing new and differing levels of competitiveness within the retail sector is less of an issue now than in 2008-2009. There is also the issue that import inflation is likely to pass through to NI retailers in 2017 which may mean that the Q4 2016 levels seen in the figure above may be a highpoint.
- These flows are a zero-sum game for the North West as a whole and need to be treated in this way by the Councils in the region – from past experience almost 60% of cross-border shoppers came from within a 30 mile distance of the border.
- Consideration could be given to the creation of a regional shopping destination which is linked, in turn, to tourism and craft/artisan trails and offerings.

4.7 Cross-Border Cooperation and Management

There is a long tradition of cross-border cooperation across the North West City Region which can be drawn upon in dealing with the challenges likely to be posed by Brexit. This ranges from cooperation between business bodies such as Londonderry and Letterkenny Chambers of Commerce, joint work between Higher Education institutions in the region, health cooperation supported by CAWT to the strategic cooperation that has been developed between the two Councils – both at officer and elected member levels. The December conference heard more details of this developing partnership and how this report was commissioned by the two Councils to inform their thinking and future actions.

In terms of the future management of the border, Dr Katy Hayward pointed out how the Irish border has gone through several iterations in its history, at times simultaneously combining a hard and soft border. The presentation detailed how in the event of the border becoming an external border of the EU that customs checks on goods and people would be inevitable, though much depends on agreement on where the checks would take place and the extent to which technology might be used. In terms of the future of the Common Travel Area, the point was made that the EU border regime has always been characterised by exceptions to rules but that much would depend on what the UK wants in terms of controls of the movement of people and goods. The potential for bespoke arrangements for the management of the Irish border has yet to be fully explored.⁴⁶

4.8 Other issues

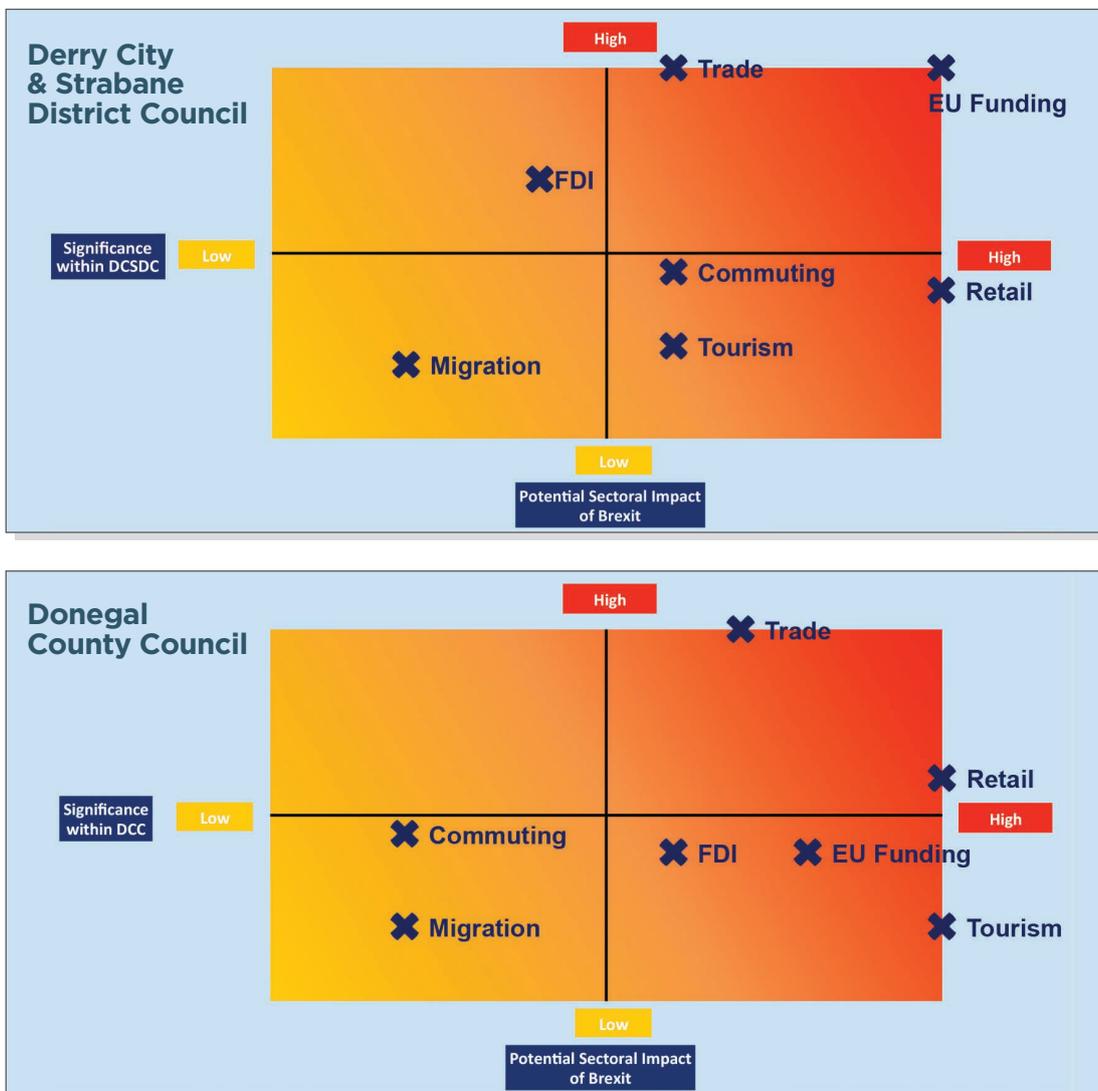
There are potentially many other areas where cross-border, British/Irish and UK/EU flows could be impacted by Brexit. The consultations have found that some sectors (such as fisheries in Donegal or the haulage industry) are likely to face particular challenges. Then there are other issues for citizens moving to study, retire or access healthcare on a cross-border basis. (For example, more than 2,300 students were crossing the border in 2014/15 to take up their enrolments in FE and HE institutions in either Derry or Letterkenny.) This report has not been able to encompass all of these issues and part of the ongoing monitoring and information process begun by the two Councils in the NWCR, will be to seek to ensure that these issues are highlighted in any future negotiations.

4.9 Conclusions

This section forms an initial attempt to explore the particular issues and impacts in different social, economic and funding areas which may arise from various Brexit scenarios. For each of the areas a series of considerations have been suggested, ranging from the need to gather further information (for example, on sectoral exposure to changes in trading regimes) to recommendations around infrastructure improvements (for example, connectivity upgrades for FDI and tourism).

Figure 17 provides a representation of the potential impacts of Brexit on DCSDC and DCC. The top diagram illustrates that within DC&SDC, EU funding is 'highly significant' and also likely to be 'highly impacted upon by Brexit'. The combination of the two characteristics places EU funding in the top right quadrant. In the bottom diagram within Donegal, trade is 'moderately significant' and 'highly impacted upon by Brexit' placing it in the top right quadrant. As more detail emerges as to the nature of the UK's exit then these sectors may move into different quadrants e.g. if there is agreement by the UK government to participate and contribute to EU funding such as Interreg.

Figure 17: Sensitivity to Brexit impacts and significance of the various areas in the North West region



The two Councils in the NWCR will explore each of these areas (and others which are noted such as education and healthcare) in more detail in the coming months with the intention of ensuring that those areas of greatest significance to the region remain high on the agenda of any negotiations. The next section will explore some possible forecasted outcomes for DCSDC and Donegal.

5.0 Possible outcomes

This section is based upon the UUEPC's modelling of outcomes in the long term for both DC&SDC and Donegal. This is done by applying a baseline scenario, in which some effects of Brexit are built in, and a lower scenario, based upon Brexit having much worse impacts than currently envisaged and which is based on the lower range estimates of independent forecasters for the UK economy.

5.1 Derry City and Strabane District Council area

Following the devolution of many economic development powers within Northern Ireland to local government the UUEPC has enhanced its NI economic model to provide forecasts at the Council area level. By providing local councils with a range of economic data (on demographics, labour market, GVA and employment by sector, etc.), the UUEPC is assisting them to identify the best economic policies for their local needs as well as the capacity to test out the outcomes and develop indicators for their new Community Planning process.

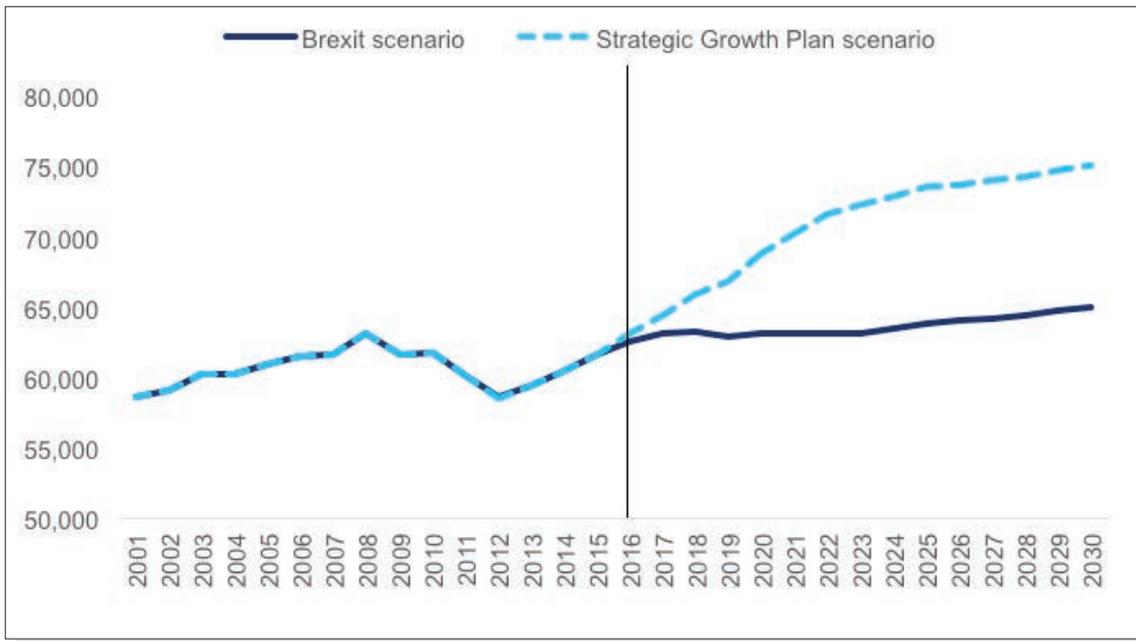
The Winter 2016 outlook includes three (upper, baseline and lower) scenarios. In the upper (and unlikely based on the last two decades' attempts to achieve convergence with UK productivity levels) scenario the assumption is that the NI economy begins to converge with the UK economy and in so doing adds on 87,000 jobs by 2026. The baseline scenario is based on certain assumptions for the UK economy around Brexit including reduced business investment in 2017-18, falling FDI in the next few years, long term migration capped at 185,000 per annum and consumer confidence remains as it currently is. In the baseline scenario NI adds 32,500 net jobs by 2026 but does little to converge with the UK. In the lower scenario (where even greater reductions in trade and investment apply leading to consumer confidence falling), NI loses 4,200 jobs by 2026, but this is seen as equally unlikely to the upper scenario.

This report has used three scenarios for forecasts for DC&SDC which are shown in Figures 18 and 19:

- A baseline scenario for the Council area drawing on the NI Winter 2016 Outlook baseline which includes a Brexit affect. This scenario, called **Brexit scenario** in Figures 18 and 19, would see 2,440 net jobs created in the Council area by 2030.
- An upper scenario, which is based upon other UUEPC research on the economic impacts of DC&SDC's proposed Inclusive Strategic Growth Plan. This scenario, called **Strategic Growth Plan scenario*** in Figure 18 has an additional 10,000 net jobs being created through a combination of capital projects (including the completion of the A5 and A6 roads) and other major tourism, regeneration and job creation projects and initiatives.
- Finally, a lower scenario which draws upon the NI Winter 2016 Outlook lower scenario where Brexit goes badly wrong in terms of impacts on trade, investment and the retail and tourism sectors. This scenario, named **"Hard" Brexit scenario** in Figure 19, sees 2,640 less jobs created by 2030 than would be the case in the baseline scenario. In this scenario the DC&SDC area would actually lose nearly 200 jobs between 2016 and 2030.

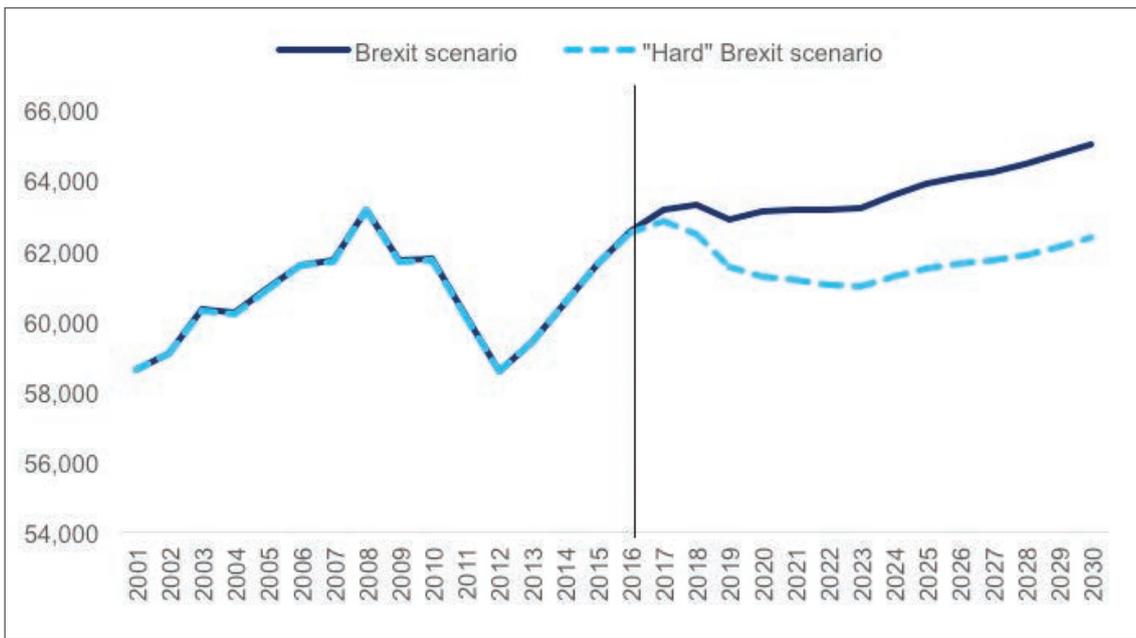
* The impacts of this, including all the caveats around skills availability and interdependencies between capital projects, has been the subject of a separate research project for DC&SDC in 2016.

Figure 18: DC&SDC Brexit and Strategic Growth Plan scenario employment forecasts



Source: UUEPC analysis

Figure 19: DC&SDC Brexit and "Hard" Brexit scenario employment forecasts



Source: UUEPC analysis

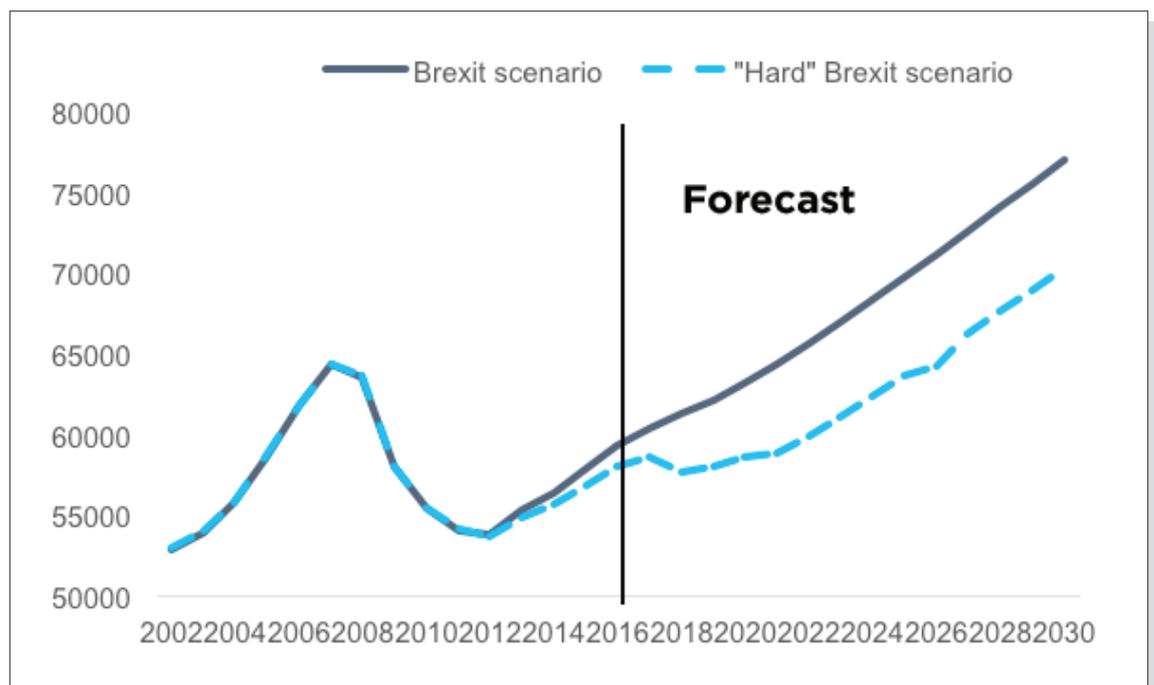
5.2 Donegal County Council Area

In Donegal the UUEPC has undertaken some preliminary modelling for the county and the results should be regarded as being very provisional. The model uses independent medium term economic forecasts, which have factored in impacts from Brexit on the Republic of Ireland's economy. It applies sectoral employment data from the 2011 Census in order to forecast employment effects at the level of County Donegal.

Two scenarios are used in Figure 20:

- A baseline scenario for employment in Donegal out to 2030 which is based upon forecasts for the Republic of Ireland including a Brexit effect. In this scenario, called **Brexit scenario**, employment is forecast to grow strongly, showing a net increase of almost 30% in those in employment.
- A lower scenario, called **"Hard" Brexit scenario**, which factors in the damaging effects on some sectors judged most at risk to reductions in trade (e.g.: agriculture, hospitality, retail, etc.), net employment is still forecast to grow by 21%, significantly less than the baseline but nonetheless a sign that Donegal's economy would continue to grow its jobs numbers.

Figure 20: Donegal Brexit and "Hard" Brexit scenario employment forecasts



Source: Provisional UUEPC analysis

6.0 Next steps

The rationale for the research for this report was that the North West City Region is in a unique position and that its complex cross-border connections and relationships required specific analysis in the light of Brexit. This report offers an initial analysis of possible outcomes for the two parts of the NWCR and some considerations concerning areas where Brexit might be expected to have an impact from trade to FDI and tourism to migration.

However, it is important to accept that the analysis is both initial and provisional in places, in part, because the Brexit story is a developing one and will continue to be once negotiations get underway. One commentator has put it well:

“ The truth about the impact of Brexit is that it is uncertain, beyond the ability of any human being to forecast and almost entirely dependent on how the process will be managed. ‘Don’t know’ is the technically correct answer. ”

The two Councils have begun a process of consulting with both local stakeholders and with central government to deal with any challenges and opportunities which Brexit may throw up. The purpose of this report has been to inform the Councils in developing their own strategy and potential initiatives to both mitigate against risks but also to seize those opportunities that will rise from this change. In shaping their approach, the Councils would do well to heed the advice from Professor Frances Ruane on managing the uncertainty created by Brexit “to prepare for the worst, work out what the vision is and hope for the best (armed with the best possible evidence to inform decision making).”

The call to be ‘close to the negotiations’ needs to be taken seriously but the question for Councils and other stakeholders in the North West will be how to...

Plan

- The two Councils and other local stakeholder should continue to avoid the temptation to (re)act in haste. Without good information, poor decisions could result.
- The focus should be on jointly gaining more understanding the specific detailed issues that may affect locally based businesses (especially exporters or those dependent on foreign skilled labour). And to understand how these issues will differ across sectors (e.g.: Agri-food, fisheries, etc.).
- To understand the Councils will need to continue consulting – in particular with central governments but not ignoring the local base.

Monitor and communicate

- Close attention to the UK’s exit negotiations (and the EU response) will be critical in shaping Council’s future strategies.
- Need to communicate coordinated ‘Brexit updates’ to stakeholders

Seek Opportunity

- Can the border become a bridge to EU funding opportunities for the two Council areas – is there an opportunity for a continuing EU Support Programme backed by the Irish and NI governments?
- Again can the border be a bridge to FDI opportunities based within the North West with market access to the EU and drawing on a commuting labour pool?

7.0 Emerging conclusions and potential mitigations

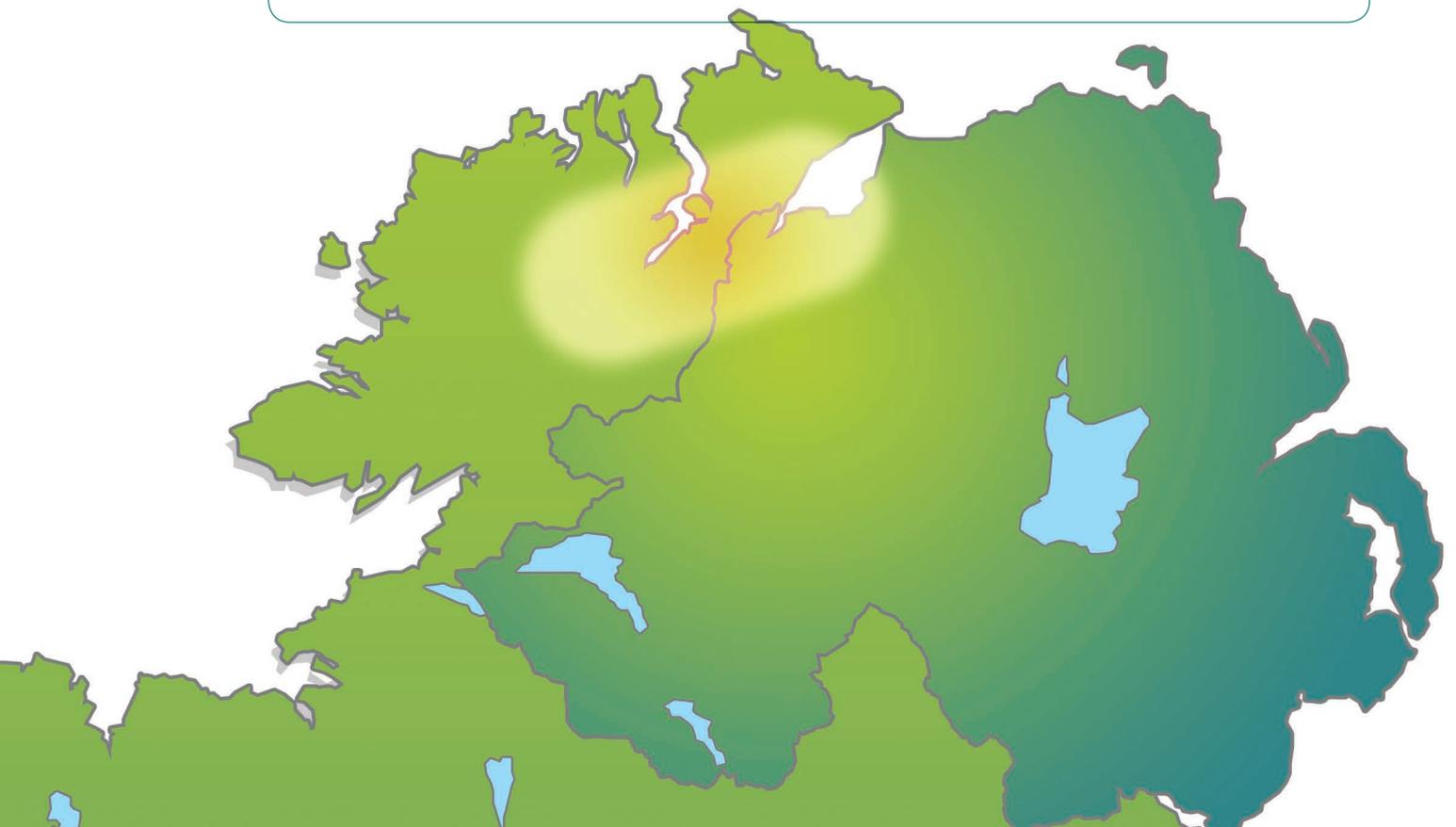
Optimal outcome

With this 'Initial Analysis Report' the two Councils and our partners have begun the process of exploring what the key issues are for those who live, work and visit the North West Region. The complex cross-border relationships that exist across trade, retail, commuting, tourism and access to public services suggest that this area is disproportionately sensitive to the effects of the UK's leaving the EU and the return of any hard form of border management. However, the strong collaborative framework that exists within the Strategic Growth Partnership leaves us well placed to put in place measures and actions that will both mitigate the challenges and exploit the opportunities that Brexit will bring to this region.

In the first instance the results of this analysis show that the free movement of goods, people and services across the border is essential and would result in an optimal outcome in this new dispensation that will exist post-Brexit.

The 'Initial Analysis' suggests that, when the UK leaving the EU is factored into the independent economic forecasts for Northern Ireland and the Republic of Ireland, the 'Brexit scenarios' for DCSDC and Donegal the former will see employment grow much more slowly than might have been anticipated, while the latter will see job creation but will continue to lag behind the national growth rates.

In a 'Hard Brexit scenario' of a decline in consumer expenditure alongside falling trade and business investment DCSDC will lose employment by 2030 while Donegal will have lost the opportunity to create an additional 7,000 jobs.



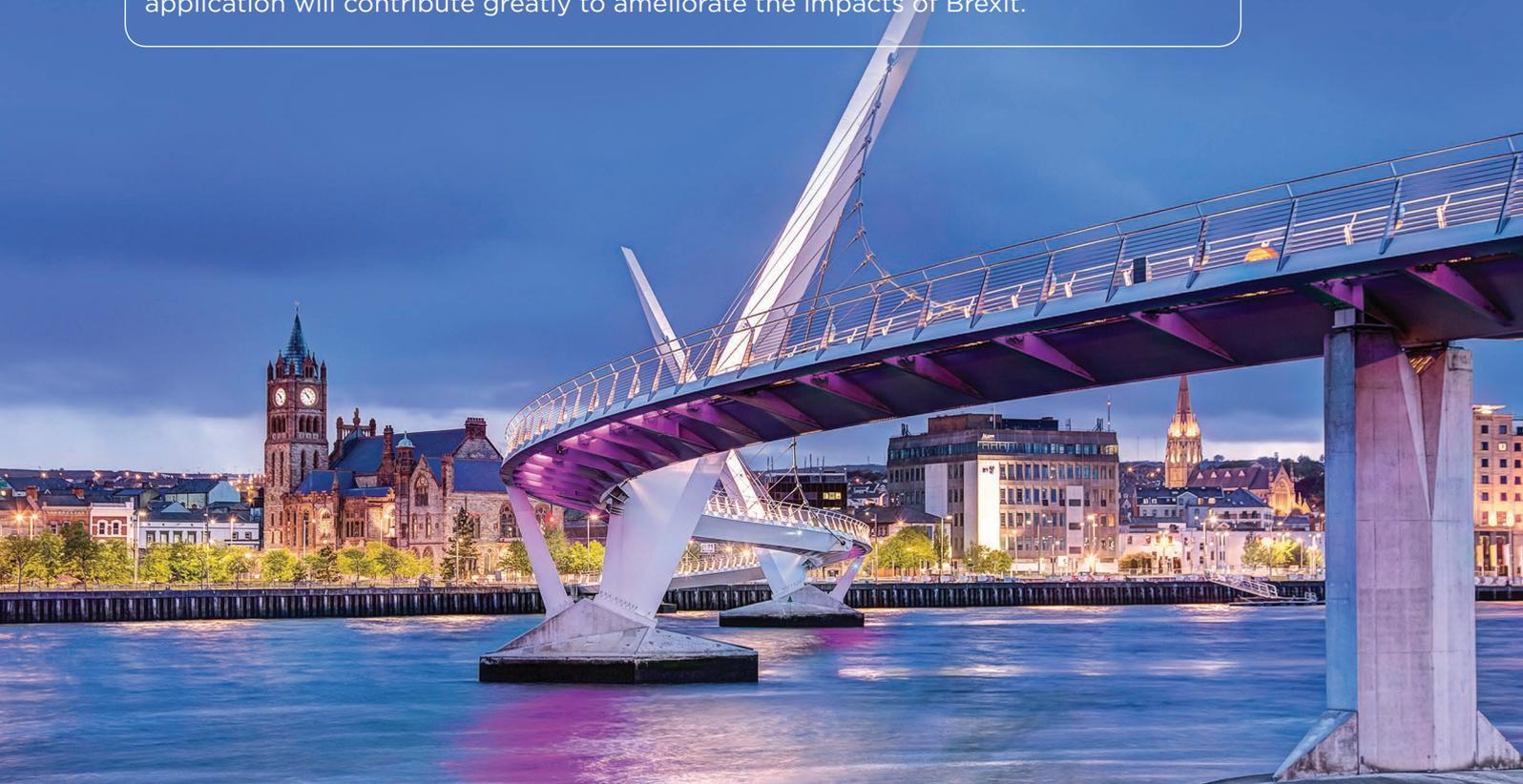
Strategic growth plan

In this context the role of the Councils and their collaborative growth plan becomes much more important. The completion of the 'Strategic Growth Plan 2016' for the DCSDC area provides us with robust up to date baseline information on the composition and needs of the district. Following detailed consultation and interrogation of the data by all of the key stakeholders we have been able to identify what the key constraints are on social and economic well-being here.

This consensus on the key economic drivers for the DCSDC area has enabled us to identify the priority interventions required to address the structural weaknesses which have retarded economic growth in the past.

The graphic overleaf illustrates the key interventions within the 'Strategic Growth Plan 2016'. We have had these tested by Ulster University Economic Policy Centre and the results are significant in the magnitude of change in employment levels (an additional 10,100 jobs by 2030) and Gross Value Added (an addition of £450m).

The actions captured in the graphic will have cross-border regional impacts for the North West Region. **The expansion of numbers at the Ulster University Magee campus, Letterkenny Institute of Technology and North West Regional College** will involve a further strengthening of the collaboration between Education Institutions in the region. **The completion of the A5 and A6 routes and the upgrade of the Letterkenny/Lifford road** will see a significant improvement of the infrastructure offering complemented by **the further development of the Airport, Port and multi-modal Transport Hub**. These interventions will be completed with the **development of our key regional economic sites in Ebrington, Fort George and Strabane town centre**. We have a confidence that these actions once delivered will transform the economic context within which this region operates, however, there is now a greater imperative to deliver these in the context of Brexit. Given that these priority actions are targeted upon improving the competitive position of the region then their application will contribute greatly to ameliorate the impacts of Brexit.



Strategic growth plan - priority actions



The expansion of the **Ulster University at Magee** and our other colleges



- **A5 Western Transport Corridor**
- **The A6**
- **The N14 Letterkenny/ Lifford road**
- **Increasing the frequency of inter-rail connectivity**
- **The development of our Airport & Port**
- **The A2 Buncrana Road Economic Corridor**
- **A multi-modal transport hub**
- **Significantly improving rural broadband connectivity**



Development of our key regionally economic sites in **Ebrington, Fort George and Strabane town centre**

North West City Region - Localised solutions

if we are to fully address and 'Brexit proof' this most sensitive of regions in terms of Brexit consequences then it is essential we begin to explore more innovative responses to the challenges and opportunities that it brings. These would include exploration of the potential of the following initiatives:

- **A Cross-Border Free Trade Zone**, raising questions around the operation of this within the zone, the operation (and location) of its external boundaries including the application of customs checks, use of technology and how to deal with rules of origin requirement.
- The introduction of **supports for firms wishing to bi-locate** in the North West Region in order to minimize some of the costs associated with Brexit, raising questions of whether this would take the shape of a cross-border business park, specialist assistance for those most affected – for example, advice to businesses on the issues likely to affect them in the new economic reality, the supply ultrafast broadband to assist firms to complete e-forms, etc..
- Explore **options for bespoke arrangements for free movement of Irish, UK, EU and non-EU citizens** from the introduction of an equivalent to the **Nordic passport union**, to the enhancement of the Common Travel Area to the introduction of **local border traffic zones** (as on the Polish/Russian border).

This initial work in preparing the region for the UK's exit from the EU will be widened and deepened as greater clarity is achieved and many of the information gaps will be filled. The provision of a robust evidence base will be a central element of this collaborative effort and the sharing of information on a cross-border basis is critical. In line with the work completed to date, additional consultation with those living and working here will be an essential component to ensure that this region prospers post 2017.

The work to date has identified a number of sectors where additional research and consultation is required to fully determine the challenges and opportunities of Brexit. In particular, we must examine more closely its potential impact on the Community, Voluntary and Social Enterprise sectors. Further analysis and consultation is also planned relating specifically to the rural area.

Notes

¹ Figures from the BBC website.

² John Garry, 'The EU Referendum vote in Northern Ireland: Implications for understanding of citizens' political views and behaviour', KESS policy brief, http://www.niassembly.gov.uk/globalassets/documents/raise/knowledge_exchange/briefing_papers/series6/garry121016.pdf accessed 16 Nov. 2016. For the UK vote in general see Matthew Goodwin and Oliver Heath, 'Brexit vote explained: poverty, low skills and lack of opportunities', 31 Aug. 2016 <https://www.jrf.org.uk/report/brexit-vote-explained-poverty-low-skills-and-lack-of-opportunities> accessed 14 Nov. 2016.

³ For more detail on these steps see the evidence of Professor Michael Dougan and Dr Stephanie Reynolds to the NI Affairs Committee, November 2016.

⁴ James Blitz, 'FT Brexit Briefing: Too close to Trump, Mrs May?', FT, 14 Nov. 2016.

⁵ There is some debate over this but much of what the Prime Minister would like is clear: see Janan Ganesh, 'Theresa May is decisive over Brexit but we choose not to listen', FT, 10 Jan. 2017.

⁶ James Blitz, 'FT Brexit Briefing: A thunderbolt from the judges', FT, 3 Nov. 2016.

⁷ For a good summary of these debates see Anand Menon and Brigid Fowler, 'Hard or soft? The politics of Brexit', NIESR Review, no. 238 (Nov. 2016), R9.

⁸ This can be found in André Sapir, 'Beyond hard, soft and no Brexit', Breugel blog post, 21 Oct. 2016, <http://bruegel.org/2016/10/beyond-hard-soft-and-no-brexit/>

⁹ For this letter see <https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/execoffice/Letter%20to%20PM%20from%20FM%20%26%20dFM.pdf>. A brief reply merely mentions energy and the land border; see <http://www.bbc.co.uk/news/uk-northern-ireland-37610633> both accessed 3 Nov. 2016.

¹⁰ David Phinnemore, 'Northern Ireland and Brexit: struggling and divided over what next', The UK in a Changing EU project blog, 15 Nov. 2016; <http://ukandeu.ac.uk/northern-ireland-and-brexit-struggling-and-divided-over-what-next-2/> accessed 22 Nov. 2016.

¹¹ For the details see http://www.merrionstreet.ie/en/News-Room/News/Contingency_Framework_Summary.pdf.

¹² Department of Finance, Getting Ireland Brexit Ready (Oct. 2016).

¹³ 'Ministers criticise UK counterparts over Brexit stance', Irish Times, 14 Nov. 2016; the Irish government's appointee as EU Commissioner, Phil Hogan, has also recently stated that the Ireland/EU relationship will also change, see <http://www.bbc.co.uk/news/uk-northern-ireland-38554049>.

¹⁴ Joint NSMC Plenary Communique, 18 Nov. 2016 https://www.northsouthministerialcouncil.org/sites/northsouthministerialcouncil.org/files/publications/Paper%20NSMC%20P2%20%2816%29%20JC%20-%20Joint%20Communique%20C3%A9%2018%20Nov%202016_0.pdf

¹⁵ Graham Gudgin, Ken Coutts & Neil Gibson, 'The macro-economic impact of Brexit', Centre for Business Research, University of Cambridge, WP 483 (November 2016).

¹⁶ Craig Berry et al, 'UK regions, the European Union and manufacturing exports', SPERI British Political Economy Brief No. 23 (2016); Tom Hunt et al, 'UK regions and European structural and investment funds', SPERI British Political Economy Brief No. 24 (2016).

¹⁷ Hunt et al, 'EU funds', p. 5.

¹⁸ For this March 2015 paper see <http://crossborder.ie/site2015/wp-content/uploads/2015/11/2015-03-22-brexit-ceti-specialist-advisor.pdf>

¹⁹ Oxford Economics, 'The economic implications of a UK exit from the EU for Northern Ireland: A briefing paper (February 2016).

²⁰ Paul MacFlynn, 'The economic implications of Brexit for Northern Ireland', NERI WP 35 (April 2016); 'The implications of the 'hard Brexit' for Northern Ireland', NERI Quarterly Economic Observer (winter 2016). For interest from Brussels see Breugel, 'The impact of Brexit on Northern Ireland: a first look' (December 2016).

²¹ Bertelsman Stiftung / ifo, 'Brexit: Potential economic consequences if the UK leaves the EU', Policy Brief, 2015/05 (May 2015).

²² See Alan Barrett et al, 'Scoping the possible economic implications of Brexit on Ireland, research series no. 48 (2015); Adele Bergin et al, 'Modelling the medium to long term potential macroeconomic impact of Brexit on Ireland', WP No 548 (November 2016); Martina Lawless and Edgar Morgenroth, 'Product and sector level impact of a Hard Brexit across the EU', WP no. 550 (November 2016).

²³ Department of Finance, UK EU Exit: An exposure analysis of sectors of the Irish economy (October 2016).

²⁴ Teagasc, Brexit: Potential Implications for the Irish Agri-food Sector (April 2016).

Notes

²⁵ The OECD put a particular focus on uncertainty in their research: Rafal Kierzenkowski et al, 'The economic consequences of Brexit: A taxing decision', Economic Policy Papers No 16 (April 2016).

²⁶ Chris Giles, 'Brexit experts, confess to your errors and carry on', FT, 4 Jan. 2017.

²⁷ Paul Krugman, 'The macroeconomics of Brexit: Motivated reasoning?', The Conscience of a Liberal blog, 30 June 2016, <http://krugman.blogs.nytimes.com/2016/06/30/the-macroeconomics-of-brexit-motivated-reasoning/?module=BlogPost-ReadMore&version=Blog%20Main&action=Click&contentCollection=Opinion&pgtype=Blogs®ion=Body#more-39827> . It is fair to say that the vast majority of forecasters continued to say that the UK economy would not enter recession in 2016. Indeed, the average of the 21 forecasts received in September 2016 was 1.8%.

²⁸ Menon and Fowler, 'Politics of Brexit', R7 which notes that 69% of Leave voters felt that 'there probably isn't much in it either way' on the economic question.

²⁹ Presentation by Loretta McNicholas, Burt, Co. Donegal, 6 Dec. 2016. There have been attempts to address this issue in successive INTERREG programmes by the International Centre for Local and Regional Development's CrosPlan projects as well as data capture work in the three cross-border network areas. However, issues of compatibility remain in areas such as exports, labour market and business demography data to name three.

³⁰ Presentation by Loretta McNicholas, Burt, Co. Donegal, 6 Dec. 2016.

³¹ Point made in the presentation by Professor Frances Ruane, Burt, Co. Donegal, 6 Dec. 2016.

³¹ Point made in the presentation by Professor Frances Ruane, Burt, Co. Donegal, 6 Dec. 2016.

³² Martin Wolf, 'Economic ills of the UK extend well beyond Brexit', FT, 24 Sep. 2016.

³³ These figures are taken from the CSO and NISRA (Broad Economy Sales and Exports Statistics). Alternative data can be had from the HMRC which shows a higher total figure for cross-border trade of £3.75 billion in 2015, almost a third of total exports and imports for NI.

³⁴ These figures are compiled from data from the InterTradeIreland Business Monitor for Q2 2015 - Q3 2016.

³⁵ These figures come from the BESES data released by NISRA. Using different trade data other research has come to a similar conclusion: Breugel, 'Impact of Brexit on NI'.

³⁶ This Invest NI data comes from their client companies and excludes a category 'Other Western Europe' which probably causes an underestimation of the EU market share.

³⁷ Presentation by Professor Frances Ruane, Burt, Co. Donegal, 6 Dec. 2016.

³⁸ For example, a 70% share of total NI Agri-food exports is accounted for by cross-border sales to the Republic (meat and dairy products are the two main sub-sectors).

³⁹ Data from the 2015 Annual Employment Survey.

⁴⁰ R.B. Davies, Iulia Siedschlag and Zuzanna Studnicka, 'Corporation Tax and FDI in EU Countries: Policy Implications for Ireland', ESRI Quarterly Economic Commentary Special Article (summer 2016).

⁴¹ WavTeq, The impact of Brexit on FDI into the UK: Recommendations for Investment Promotion Strategy (July 2016).

⁴² DAERA, Farm Incomes 2014/15 (2016).

⁴³ For these figures see CSO & NISRA, Ireland and Northern Ireland, Census 2011 (2014); Centre for Cross-Border Studies, Border People Briefing No. 5; Breugel, 'Impact of Brexit on NI'.

⁴⁴ For some research on an earlier episode of this, using CSO data, see E. Magennis, S. MacFeely and A. Gough, 'A sense of proportion in cross-border shopping: What the latest statics show', Journal of the Centre for Cross Border Studies (2010).

