



Subject:	'BREXIT' – Summary of the research to inform debate
Date:	13 April 2016
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Is this report restricted?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Is the decision eligible for Call-in?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

1.0	Purpose of Report
1.1	This Committee is responsible for 'the development and implementation of strategies, policies, programmes and projects directed towards regeneration and growth of the city'. The purpose of this report is therefore to outline some of the research that has been prepared in relation to the forthcoming referendum on the UK's membership of the European Union for Members information. This includes the recent research carried out by Oxford Economics and PricewaterhouseCoopers, using various scenarios to assess the economic implications of the UK leaving the EU.
1.2	The referendum is to take place on 23 June 2016 when voters will be asked: 'Should the United Kingdom remain a member of the European Union or leave the European Union?' The options for voters will be 'Remain a member of the European Union' and 'Leave the European Union'.
1.3	The Council posed a Notice of Motion on the Referendum at its April meeting. This report does not see to alter political positions, but is simply provided to give Committee Members access to the recent economic research conclusions.

2.0	Recommendations
2.1	<p>The Committee is asked to:</p> <ul style="list-style-type: none"> Note the research findings within the contents of this report.
3.0	Main report
3.1	<p><u>Key issues</u></p> <p>The EU has 28 Member States with an estimated population of over 500million. Its main purpose is to foster economic co-operation. It has policy responsibilities in a range of areas from the environment and trade to fisheries policy and the principle of free movement.</p>
3.2	<p>In January 2016, the Chair of the Northern Ireland Affairs Committee opened the NI and EU Referendum Inquiry stating that <i>“The forthcoming vote ... represents a once-in-a-generation opportunity for people to express their opinion on this important issue. Our aim is not to make a recommendation on whether the people of Northern Ireland should vote to leave the EU or remain a member. Rather, we will look to inform public debate on the specific issues affecting Northern Ireland that should be considered.”</i></p>
3.3	<p>A summary of the main arguments of the Leave and Remain side of the EU Referendum Debate was prepared by the NI Assembly Research & Information Service in January 2016 and is attached as Appendix 1.</p>
3.4	<p>Assessing the consequences of the UK leaving the European Union is complex as it depends on the nature of the future relationship that the UK will have with the EU. As a result the impact at a sub-regional level can be more challenging to assess; particularly when considering the issues for Northern Ireland given its unique position as the only part of the UK that shares a land border with an EU member state (Republic of Ireland) and is involved in a range of cross-border cultural, economic and political initiatives.</p>
3.5	<p>A number of significant pieces of research have been carried out that will inform the inquiry and stimulate discussion.</p>
3.6	<p>In March 2015, the Enterprise, Trade & Investment Committee specialist advisor briefed the Committee on ‘The Consequences for the Northern Ireland Economy from a United Kingdom exit from the European Union’¹ and identified a number of issues of significance</p>

3.7	<p>for Northern Ireland including: corporation tax, cross-border trade, FDI and EU Funding.</p> <p>Academics from Queen’s University Belfast and University College Cork published a report in November 2015 ‘To Remain or Leave: Northern Ireland and the EU Referendum’² to examine the debate surrounding the EU referendum from a Northern Ireland perspective. It addresses a number of areas: ‘constitutional and political issues’; ‘policies and policy cooperation’; ‘trade, free movement and the economy’ and ‘funding’ – notably European Structural Funds and PEACE. Rather than presenting arguments for either side of the debate the report identifies questions on the topics to further the debate.</p>
3.8	<p>In February 2016, a briefing paper on the ‘Economic Implications of a UK Exit from the EU for Northern Ireland’ was prepared by Oxford Economics for the Department of Enterprise, Trade & Investment (DETI)³ . The paper builds on a wider research project assessing the macroeconomic implications of a UK exit from the EU for the UK and the rest of the world across nine alternative scenarios. The scenarios vary across two main dimensions:</p> <ul style="list-style-type: none"> – The new trade and market access agreement that is agreed between the UK and the rest of the EU post UK exit from the EU. – The policy options that the UK government adopts with any new policy sovereignty.
3.9	<p>The paper summarises the major findings of the modelling exercise with a particular focus on Northern Ireland in comparison to the UK as a whole. The report considers the impact on the Northern Ireland economy overall and concludes that “the Northern Ireland economy is likely to be relatively more vulnerable to the type of structural changes triggered by a UK exit from the EU in comparison to the rest of the UK”. On average, by 2030, Oxford Economics estimate that “the UK GVA will be 1.8% below the baseline level across all nine scenarios. In comparison, on average by 2030, GVA in Northern Ireland will be 2.8% lower than the baseline”.</p>
3.10	<p>This conclusion is based on Northern Ireland’s trade links with the Republic of Ireland being stronger than the rest of the UK, the composition of the Northern Ireland manufacturing activity which has a high dependence on the food, beverage and tobacco and transport equipment sub sectors and the relatively high level of inward FDI (compared to the rest of the UK) that Northern Ireland secures.</p>

¹ Budd, L, The Consequences for the Northern Ireland Economy from a United Kingdom exit from the European Union, Briefing note: Committee for Enterprise, Trade and Investment/Open University (March 2015)

² Queen’s University Belfast, University College Cork, To Remain or Leave: Northern Ireland and the EU Referendum (November 2015) <http://eudebateni.org/wp-content/uploads/2015/11/To-Remain-or-Leave-Northern-Ireland-and-the-EU-Referendum.pdf>

³ Report available at: <http://www.oxfordeconomics.com/brexit/DETI>

3.11	<p>The report also highlights the limitations of the modelling which may cause significant regional differentiation:</p> <ul style="list-style-type: none"> – Northern Ireland, uniquely, shares a land border with another EU member state (Republic of Ireland) and therefore is likely to be more vulnerable to a disruption of trade flows, other things being equal; – Regions differ to the extent to which they receive FDI (proportionate to their capital stock) which is relevant given the estimated disruptions to inflows of FDI to the UK; – Regions have different industrial structures and that the impact of UK exit from the EU on different sectors is likely to be uneven; – Regions differ in terms of the relative importance of EU structural funds and other types of EU budget-financed projects to economic activity; and – Regions differ in terms of their reliance on EU migrant labour given the possibility that a UK exit from the EU would result in the curtailment of free movement of people. <p>A copy is attached at Appendix 2.</p>
3.12	<p>While not addressing the potential implications for Northern Ireland, the recently published PricewaterhouseCoopers report commissioned by the CBI (March 2016) also provides a quantitative assessment of the possible implications for the UK economy as a result of leaving the European Union⁴. It uses two different scenarios to assess the impact of the UK exiting the EU which they describe as being:</p> <ul style="list-style-type: none"> – An FTA scenario – based on the UK negotiating a Free Trade Agreement (FTA) with the EU with this and other aspects of uncertainty being resolved within 5 years (by 2021) – A WTO scenario where negotiations on post exit arrangements are more difficult and trade between the EU and UK defaults to being conducted under World Trade Organisation (WTO) rules.
3.13	<p>Five potential impacts have been identified and are considered under each of the two scenarios:</p> <ul style="list-style-type: none"> – Increase in political and economic uncertainty around the UK's future relationship with other EU countries – Lower levels of trade and investment due to the introduction of tariffs and market restrictions in terms of exporting relationships for businesses, levels of FDI – Reduction in migration

⁴ Pricewaterhousecoopers; Leaving the EU: Implications for the UK Economy (March 2016). Report available at: <http://www.pwc.co.uk/services/economics-policy/insights/implications-of-an-eu-exit-for-the-uk-economy.html>

- Reduction in regulation which could reduce the costs associated with it
- Reduction in fiscal contributions as the UK would no longer be required to make budgetary contributions (unless these were part of a negotiated bilateral deal, which is not included in the scenarios modelled). Taking account of the “rebate and funding from the EU in terms of farming subsidies and funding from rural and regional development programmes and other EU initiatives the UKs average net contribution to the EU budget from 2010 to 2015 is estimated to be around £8.8bn (around 0.5% of GDP)”. The report notes that if the UK leaves the EU it would also cease to receive funding from the EU, therefore policy choices will be required on whether or not to re-create EU Funds in a Brexit form.

3.14 A copy of the report is attached at **Appendix 3**. PwC estimate that in both exit scenarios by 2030 UK GDP will be between 1.2% and 3.5% lower than if the UK remains in the EU (around £25-65 billion, at 2015 values). “This reflects the potential negative economic impacts of increased barriers to trade and labour mobility after EU exit, offset in part by potential benefits from lower regulatory burdens and fiscal savings from no longer paying net budgetary contributions to the EU”. The following table has been extracted from the report and details the estimated change in UK GDP over time for both scenarios.

Table 2.1: Exit scenario results – percentage difference in real UK GDP from levels in counterfactual scenario

Impacts	FTA scenario			WTO scenario		
	2020	2025	2030	2020	2025	2030
Uncertainty	-1.9%	-0.1%	-0.1%	-2.6%	-0.9%	-0.1%
Trade	-0.5%	-0.5%	-0.5%	-1.7%	-1.9%	-2.1%
Migration	-0.8%	-0.8%	-1.0%	-1.3%	-1.6%	-1.6%
Regulations	0.0%	0.3%	0.3%	0.0%	0.3%	0.3%
Fiscal	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Total impact on GDP	-3.1%	-1.1%	-1.2%	-5.5%	-4.1%	-3.5%
Change in population	0.0%	-0.2%	-0.4%	-0.1%	-0.5%	-0.9%
Impact on GDP per capita	-3.0%	-0.9%	-0.8%	-5.4%	-3.6%	-2.7%

Note: Numbers in the columns may not add up exactly due to rounding.

Source: PwC analysis.

3.15 This report is not a comprehensive review of the potential implications of Brexit, but rather highlights some of the research and the main issues being raised in the debate. A copy of the Terms of Reference for Northern Ireland and the EU Referendum Inquiry is attached as **Appendix 4** for reference.

3.16 Financial & Resource Implications

There are no specific financial and resource implications attached to this report.

3.17	<p><u>Equality or Good Relations Implications</u></p> <p>There are no specific equality or good relations implications attached to this report.</p>
4.0	<p>Appendices – Documents Attached</p>
	<p>Appendix 1: Summary of arguments of the Leave and Remain side of the EU Referendum Debate prepared by the NI Assembly Research & Information Service</p> <p>Appendix 2: A briefing paper on the Economic Implications of a UK Exit from the EU for Northern Ireland, prepared by Oxford Economics for DETI</p> <p>Appendix 3: Leaving the EU: Implications for the UK Economy report prepared by PWC</p> <p>Appendix 4: Terms of Reference for the NI Affairs Committee - Northern Ireland and the EU Referendum Inquiry</p>