Opening statement by Alan Barrett and Martina Lawless (ESRI) to the Seanad Special Select Committee on the withdrawal of the United Kingdom from the European Union

2nd November 2021

We would like to thank the Committee for inviting us here today to discuss the impact that Brexit and the trade and cooperation agreement between the EU and UK are having on the Irish economy and the potential broader impacts of Brexit for Ireland into the future.

Throughout the trade negotiation process taking place during 2020, the risks inherent in a “Hard” Brexit where no deal was reached were extensively discussed. The Trade and Cooperation Agreement signed in December 2020 meant that tariff and quota free trade was retained between the UK and EU. It therefore avoided the most negative potential economic scenario of high tariffs impeding Irish trade with the UK. However, the Agreement did not retain the status quo of free market access and a range of non-tariff barriers in the form of new regulatory and customs procedures were put in place from the start of January 2021.

We have been examining the impact of the increased costs associated with these changes to trade requirements over recent months. An important issue to take account of when examining recent trade figures is how to isolate the impact of Brexit from other factors, most specifically the changes in trade flows across the past year and a half as a result of the COVID-19 pandemic. We have been doing this by comparing trade flows between the UK and all EU member states with trade in the same products across all global trade partners in order to separate the UK-specific Brexit effect from the impact of COVID-19 which applies to international trade more widely.

For overall trade between the UK and EU, the direct impact of Brexit has led to a 36 per cent decline in aggregate EU imports from the UK and a fall in exports to the UK of 24 per cent. The time path of the Brexit impact shows that the reductions in both directions of trade were particularly sharp in January and February followed by some recovery in March. The subsequent effects, from April to July, have been relatively stable. This direct impact of Brexit estimated by our statistical model accounts for about two-thirds of the observed year-on-year change in trade with the remainder due to other factors such as COVID-19 disruptions to trade.

For Ireland, we estimate the direct impact of Brexit has been to reduce imports coming from the UK to Ireland by 45 per cent. For exports from Ireland to the UK, in contrast, we estimate that very little of the reduction observed over the past year can be attributed solely to Brexit. However, although the impact of Brexit on total exports has so far been limited, some individual sectors have faced substantial reductions in their exports to Great Britain. In particular, the food and beverages sectors have experienced very large falls in their exports to Great Britain that can be linked directly to a Brexit impact – reductions of around 25 per cent for food exports and over 40 per cent reduction in beverages exports in the first half of 2021.

The effects of Brexit in the first half of 2021 have therefore been quite asymmetric, with a much larger change in imports than in exports. The share of Ireland's imports coming from the UK was 33 per cent in 2015 before the Brexit referendum and is now just 12 per cent. The share of the UK in Irish exports has fallen from 14 to 8 per cent in the same period. The uneven impact on imports rather than exports can be explained by the immediate introduction of customs requirements from the EU side but a more gradual phased-in approach on the UK side. This means that the risks posed by Brexit in terms of increased costs to Irish exporters have not fully materialised with further changes to customs requirements scheduled to be introduced by the UK in January and July 2022.

When we look at how Brexit has impacted trade, we find clearly that all of the decline in Irish-UK trade since January 2021 is driven by Great Britain. In contrast, trade between Ireland and Northern Ireland trade has increased considerably. The increase has been primarily on the side of imports coming from Northern Ireland which have grown by close to 90 per cent as a result of Brexit. In 2015, Northern Ireland accounted for around 1.5 per cent of both total Irish imports and exports. This year, the share of Northern Ireland has gone up to 5 per cent of total Irish imports. The food and beverages sectors showed particularly large increases in terms of the shares of imports originating in Northern Ireland.

While the increase in Irish imports from Northern Ireland is significant, it does not offset the decline in trade with Great Britain. Trade has also been diverted to other members of the European Union and to the rest of the world as shown by the changes in transport routes with the increase in direct shipping to Europe suggesting both a change in Irish supply chains and also avoidance of the UK landbridge. Data released by the CSO on volumes handled by Irish ports show that the tonnages going from Irish to UK ports in the second quarter of 2021 were down 18 per cent compared to the second quarter of 2019 and a similar reduction in percentage terms for tonnages arriving. I am comparing to 2019 to avoid the complicating factor of COVID-19 in the 2020 figures.

One risk which we drew attention to in previous appearances before this Committee was how increased costs of trade might feed into consumer prices. Although inflation overall has picked up substantially in recent months, we note that food prices have been relatively stable. This was the area where concern was most focused regarding the impact of Brexit given the large share of grocery imports coming from the UK and suggests that supply chain adjustment by firms have mitigated much of the potential risk in this particular area.

A number of potential long-run impacts of Brexit are still unknown, particularly in regard to regulatory divergence which may increase trade costs further between the UK and the EU. Limited international travel during the COVID-19 pandemic means that we have yet to see what, if any, changes Brexit might bring to migration patterns with restrictions on migration into the UK potentially leading to larger flows into Ireland. Likewise, with the UK outside of the EU Single Market, the attractiveness of Ireland to FDI that may have located in the UK may increase further.

The growth in trade with Northern Ireland and its unique status in terms of access to both the EU and UK markets could potentially feed into broader economic linkages across the island, with enhanced cooperation in economic and other areas being supported by the Shared Island initiatives of the government. While this will be seen in positive terms by some, it should be acknowledged that others will see the increased trade as resulting from an obstacle imposed on NI/GB trade by the Northern Ireland Protocol. It remains to be seen how the ongoing dispute with regard to the Protocol will be resolved and whether any resulting changes to the Protocol will see a partial reversal of the increased trade between Ireland and Northern Ireland. More generally in relation to the Protocol, continued uncertainty with regard to its operation is likely to be limiting the extent to which Northern Ireland can benefit from its unique status. A successful resolution could see increased investment in Northern Ireland and, in the long run, a strengthened Northern Ireland economy which would be positive for all on the island of Ireland.

We would be happy to take questions from the Committee.