

**PRELIMINARY ANALYSIS ON
THE IMPACT OF A UK
REFERENDUM ON ITS
MEMBERSHIP OF THE
EUROPEAN UNION**

MAY 2015

*Compiled by the European Policy and Co-ordination Unit, Office of the First Minister
and deputy First Minister*

1. WHITEHALL REFERENDUM PLANNING AND FORWARD LOOK

- Following the Election, Conservative Party policy in relation to European Union reform and renegotiation has now become the United Kingdom's (UK) Government's policy. Cabinet Office and the Foreign and Commonwealth Office have jointly prepared a Referendum Bill. This will be ready for introduction to Parliament soon after the Queen's Speech on 27 May. The exact timing of an EU Referendum is unclear. There was a commitment to hold it before the end of 2017 and the Prime Minister had said that he would like to bring it forward, if possible. By way of comparison, the legislation for the Alternative Vote referendum was introduced in June 2010 and received Royal Assent in January 2011. The Electoral Commission would be expected to request 6 months in which to organise the Referendum.
- The passage of the Bill would happen in parallel to the EU renegotiation. The process for the renegotiation is unclear. The model for the recent negotiations on Protocol 36 in relation to the UK's opt-out on Justice and Home Affairs measures could provide a useful starting point. However, the renegotiation will be of a greater magnitude and cut across numerous sectors. The June European Council would be a major opportunity for a discussion of the EU reform agenda. Other Member States were expecting the Prime Minister to set out his position. Further discussions at European Council level are likely to be necessary.

2. THE UK GOVERNMENT'S REVIEW OF THE BALANCE OF COMPETENCES

- The Review of the Balance of Competences was launched in July 2012 to analyse and examine the UK's relationship with the EU. The review was the most extensive analysis of the impact of EU membership on the UK ever undertaken and provided an unprecedented opportunity to bring together the views of a wide range of organisations and individuals to give a detailed picture of how the EU affects our everyday lives.
- A total of 32 reports were compiled drawing on nearly 2,300 pieces of written evidence from Parliament and its Committees, business, the Devolved Administrations and Civil Society. European Partners and EU institutions were also asked to contribute evidence to the review.
- The 32 published reports are:
 - Single Market
 - Taxation
 - Animal Health and Welfare and Food Safety
 - Health
 - Development Co-operation and Humanitarian Aid
 - Foreign Policy
 - Single Market: Free Movement of Goods
 - Asylum and Non-EU Migration
 - Trade and Investment
 - Environment and Climate Change
 - Transport
 - Research and Development
 - Culture, Tourism and Sport
 - Civil Judicial Co-operation
 - Single Market: Free Movement of Persons
 - Single Market: Free Movement of Services
 - Single Market: Financial Services and the Free Movement of Capital

- EU Budget
 - Cohesion
 - Social and Employment
 - Agriculture
 - Fisheries
 - Competition and Consumer Policy
 - Energy
 - Fundamental Rights
 - Economic and Monetary Policy
 - Police and Criminal Justice
 - Information Rights
 - Education, Vocational Training and Youth
 - Enlargement
 - Voting, Consular and Statistics
 - Subsidiarity and Proportionality
- Whilst there is no overarching concluding report, a number of themes recurred across the review:
 - Subsidiarity and proportionality underpins the application of EU competence in all areas. However, many contributors believe these principles have been insufficiently implemented, pointing to unnecessary EU action, over harmonising or resulting in disproportionate costs to business and governments.
 - Contributors commented that the UK has often been successful in shaping the EU agenda whilst some reports highlight how EU programmes have benefitted the UK.
 - Respondents highlighted the need for greater democratic accountability of EU institutions and that accountability could be improved by giving national parliaments a greater role.
 - The need for less and better EU regulation and the need for more effective implementation and enforcement of existing legislation.
 - Many contributors stated the importance of the EU focusing on areas where it adds genuine value. Member States should retain the ability

to take actions appropriate to national circumstances, recognising that one size does not fit all.

3. CHANGE SCENARIOS FOR THE UNITED KINGDOM AND POTENTIAL OUTCOMES

- **FULLY-IN**

The UK joins the Euro, Schengen, the Fiscal Compact and other policies from which it currently opts out or abstains. The scenario is more hypothetical than real.

- **HALF- IN**

The UK does not join the Euro, but signs up to as many EU initiatives as possible, similar to Sweden or Denmark. It engages actively and positively in Europe and thereby maintains its place at the EU's top table, in spite of the fact that it is not a Eurozone member. The Government takes the initiative to become a leader in certain policy areas: security, foreign policy, energy policy or digital policy.

- **HALF-OUT**

The UK steps back from European integration and puts distance between itself and the Eurozone, while seeking to ensure the integrity of the Single Market. It only joins the initiatives that matter most to it. The block opt out from Justice and Home Affairs legislation provides a possible template for this position.

- **FULLY-OUT**

The UK withdraws from the European Union and seeks a bilateral free trade agreement or other special arrangements with the Union to secure trade relations.

4. POSSIBLE LIST OF UK GOVERNMENT ISSUES TO BE ADDRESSED BY THE EUROPEAN UNION

- The UK should no longer be subject to “ever-closer union” among the peoples of Europe. In the context of the European Union’s next institutional cycle, the conclusions of the 26/27 June 2014 European Council noted that “the concept of ever closer union allows for different paths of integration for different countries, allowing those that want to deepen integration to move ahead, while respecting the wish of those who do not want to deepen any further.”
- New powers for national parliaments to scrutinise, delay or change EU legislation.
- Freeing business from red tape and enhancing free trade zones.
- Decentralisation of European decision-making by using subsidiarity and proportionality to make powers appropriate to distinct levels of government.
- Restricting 'benefit tourism'.
- New controls on large-scale migrations.
- Freedom from unnecessary interference by the European Court of Human Rights and the EU's Justice and Home Affairs laws.

5. IMPACT OF BREXIT ON THE PROSPERITY OF THE UNITED KINGDOM'S POORER REGIONS

- The UK is home to some of the richest and poorest regions in Western Europe.
- The growth in regional inequality is caused by a decline in the number of manufacturing jobs, with the services jobs that replace them paying less well on average. In addition, high-skilled people tend to move to prosperous cities while the low-skilled stay put.
- A UK exit from the European Union risks making this regional inequality worse, because poorer regions of the UK are more dependent on exports to Europe than richer ones.
- Services account for nearly a third of UK exports to Europe but the Union does not impose tariffs on service imports.
- When the importance of goods exports to the EU is expressed as a proportion of regional gross value added (GVA) – a measure of labour productivity and hence prosperity of a region – it identifies the UK regions most exposed to EU demand for goods. Northern Ireland's (NI's) exposure is 4th in a list of 12 regions, with only the North East, Wales, and the East of England having greater exposure.
- By applying the EU's current tariff rates to UK regions' goods exports to the European Union, the total value of the tariffs that each region would have to pay can be estimated. NI would see tariffs applied to exports amounting to 0.34% of its private sector output; second only to the North East at 0.43%. London the UK's richest region, would feel much less pain with tariffs amounting to 0.11% of its output.

6. POTENTIAL AREAS OF CONFLICT FOR NORTHERN IRELAND IN THE EVENT OF BREXIT

- This is still an emerging issue and the ramifications of a UK exit from the EU have not yet been fully articulated. In particular, the terms of any withdrawal will end up dictating the rules governing the level of access we have to EU markets.
- Although the UK is a net contributor to the EU, NI is a net beneficiary, so the immediate financial impact to NI is likely to be negative.
- Should the UK withdraw from the EU, and subject to the terms of withdrawal, we could lose access to:
 - €862m in Structural Funds (European Regional Development Fund (ERDF) and European Social Fund (ESF)) over the period 2014-20;
 - €2.5bn in Common Agricultural Policy funding (2014-2020); and
 - Loss of access to competitive EU funding which in the period 2011/12 – 2013/14 has amounted to £72.7m.
- Loss of EU economic development funding. In the period 2007-13, EU support accounted for approximately 8.4% of annual GDP across a range of activities of which two thirds was accounted for by agriculture. Lack of subsidies would put NI farmers and related industries at a severe disadvantage to their RoI counterparts.
- Drop in GDP – estimated at approximately 3%.
- NI as a location for Foreign Direct Investment (FDI) might be less attractive to companies who want to do business within the EU.
- As a location for FDI to access EU markets, RoI might emerge as a more favourable location for developing economies. Harmonisation of corporation

tax with RoI could be undermined with accompanying budgetary and transactions costs rising significantly.

- Loss of FDI could impact on demand for domestic production, with a knock on reduction in training requirements, a decline in skills levels and demand for tradeable and non-tradeable services.
- Regulations concerning transatlantic air traffic are negotiated at EU level, which could be detrimental to NI's international connectivity.
- Loss of access to the benefits of EU Trade Agreements.
- NI is the only part of the UK with a land border with another EU Member State and the Eurozone.
- Due to its location, NI would be affected more than any other part of the UK. A full external EU land border with RoI would impact on the flow of people; capital; animals; and goods and services. It is likely to come with an associated significant administrative cost, especially since RoI is NI's second largest trading partner after GB.
- A reinstatement of the customs border between NI and RoI including passport control, will result in direct costs for NI and indirect costs for trade.
- A reduction in cross-border trade. Since the Good Friday Agreement, cross-border trade has grown, the relationship of NI to the rest of the EU has strengthened and the importance of the RoI as a market for output of NI's economy has increased. With Brexit, the cost of cross-border trade and economic co-operation would increase including the cost of cross-border infrastructure projects.
- There are likely to be very significant legal implications, which will require a significant workload to disentangle and restructure the NI statute book and practical legal arrangements. International treaties and agreements (negotiated at UK level), UK statutes, devolved primary and secondary

legislation will all be required. The legal and administrative resource required to do this would be significant.

- In addition, implementation of cross border co-operation in areas such as the health service could be much more complicated.

Employment Law

- As Employment Law is a devolved matter, implications could arise if GB and NI decided to take a different approach to employment issues post Brexit. This could have a knock on effect pertaining to the relative competitive advantages of locations in different parts of the UK and relative their attractiveness to workers.
- If NI had lower employment rights standards in comparison to RoI there could be potential impacts for the NI economy including with regards to FDI projects.

Agriculture

- If the UK were to leave the EU completely, it could expect to be treated by EU members as if it were a third country under international trade rules developed by the World Organisation for Animal Health (known by the French abbreviation OIE); these are extensive, including in relation to the import from, and the export of livestock to, EU Member states (including the RoI) resulting in added costs.
- If the UK were to leave the EU partially, but remain in the European Economic Area (EEA) as for example Norway, then this could mitigate some of that impact.
- It would also have an impact on all-island work on plant and animal health and welfare and co-operation under EU programmes, including the Rural Development Programme.

7. MANAGING THE CHALLENGE FOR IRELAND'S NATIONAL INTERESTS

- Developments in the UK affect the Republic of Ireland (RoI) to a greater extent than developments in any other EU Member State.
- Key priorities for RoI over the next five to ten years will be:
 - Establishing economic recovery, growth and stability;
 - Maintaining peace and stability on the island of Ireland;
 - Keeping RoI at the heart of Europe and fully engaged as a constructive partner in the EU.
- Multilateral structures to manage difficulties arising from the change in the United Kingdom's relationship with the EU:
 - The institutions created by the Good Friday Agreement;
 - The British-Irish Council could become a more significant network to develop common policies on questions of transport, agriculture, the environment, culture, health, education and other matters from which individual members could opt out.
- The experience of the Nordic Council, an inter-parliamentary forum, demonstrates that states and territories can work together in a multilateral framework despite varying degrees of integration within the EU. Finland is in the Eurozone, Sweden and Denmark are in the EU but not the Eurozone, and Norway and Iceland are members of the EEA.
- The direct bilateral relationship between Dublin and London will also be important. The ten-year co-operation agreement announced by the Taoiseach and the Prime Minister in March 2012 established regular meetings between Secretary Generals/ Permanent Secretaries of government departments through formal exchanges of civil servants.

- RoI remains firmly committed to EU integration, regardless of the ongoing debate within the UK on its future place in the Union.
- Decisions made in the UK could present RoI with two dilemmas:
 - The need to support London and RoI's interest for the UK to remain in the EU while simultaneously differentiating RoI from the UK;
 - A potential binary choice between RoI's nearest neighbour and its continental partners.
- In the case of a UK withdrawal, RoI may have to call on its EU partners to allow special arrangements to continue operating with the United Kingdom in certain areas and to maintain a free trade relationship. RoI could argue that it would be impermissible to allow a situation in which it would be disproportionately affected by a UK withdrawal. The nature of these derogations would be dependent on the type of relationship the UK established with the Union.
- A strengthened British-Irish Council would allow RoI to remain a full and active member of the European Union whilst maintaining strong ties with its closest neighbours for continued co-operation on issues relating to EU membership, such as agriculture, fisheries, research and innovation, transport, energy and the environment.

8. POTENTIAL AREAS OF CONFLICT FOR IRELAND IN THE EVENT OF BREXIT

- The border with the RoI would become an external EU border, threatening to re-impose barriers dismantled over the last generation, including border posts, passport, visa and customs checks.
- Free movement of persons between RoI and the UK could be threatened by UK immigration controls, following the scrapping of the Common Travel Area between RoI and the UK.
- The Irish financial services sector could be subject to aggressive UK competition outside the EU regulatory framework. The UK is not part of Banking Union, although it is constrained by legislation from engaging in aggressive competition with other Member States. This restraint would be weakened, if not eliminated in the event of Brexit.
- Trade is the exclusive competence of the European Commission and individual Member States cannot conclude bilateral trade agreements with third countries. The potential impact of a UK withdrawal on its trade with the EU, estimated at 22%, could reduce total Irish exports by 3.6%.
- Continued access to UK markets for Irish agriculture and agri-business. Not clear how this could be achieved without giving similar rights to all other Member States.
- FDI into RoI could be undermined by unfair UK competition.
- The rolling back of EU social legislation by a future UK Government could result in social dumping from a less regulated UK labour market.

- **Judicial and security co-operation.** A UK withdrawal could lead to the abandonment of Justice and Home Affairs provisions, including the European Arrest Warrant.
- **Energy co-operation.** RoI operates an all-island energy market with NI. This would presumably continue, but an Irish-British single energy market could be put on hold in favour of electricity interconnection with France as an entry point into the single European energy market.