

Brexit Institute 16<sup>th</sup> September 2019

Dublin Airport Central

Text of address by Minister Paschal Donohoe

## **Introduction**

I would like to begin by thanking Professor Federico Fabbrini and all his team at the Dublin City University Brexit Institute for the kind invitation to come here today to give my perspective on Brexit as Minister for Finance.

The work that the DCU Brexit Institute is doing is a very positive contribution to the study of what is often seen as a wholly negative challenge – the legal, political and economic implications of the UK's departure from the European Union both for Ireland and the EU.

In this age of uncertainty there some important points we can be sure of;

- That Brexit is a process without a defined outcome and we will not have the means to fully understand the Brexit phenomenon until that process is complete;
- That Brexit will remake relations between Ireland, the UK and the EU; and
- That politics students in universities across the world including DCU will have ample PhD material for decades to come.

## **Brexit in Historical Context**

Exactly 73 years ago this week in 1946, with the embers of the second world war still smouldering in people's minds, Winston Churchill delivered his now famous "United States of Europe" speech at the University of Zurich where he stated:

"The first step in the re-creation of the European family must be a partnership between France and Germany. In this way only can France recover the moral and cultural leadership of Europe. There can be no revival of Europe without a spiritually great France and a spiritually great Germany. The structure of the United States of Europe will be such as to make the material strength of a single State less important. Small nations will count as much as large ones and gain their honour by a contribution to the common cause".  
Of course, this speech has caused a lot of confusion and controversy over the years.

Did he actually mean for the UK to join a federal Europe or not?

“We are with Europe, but not of it” Churchill wrote in an earlier essay.

This tension has been reflected in Britain’s relationship with Europe for the last 70 years.

The strains of that ambiguity may have been a catalyst for the Brexit referendum and result. However, it has equally effected the engagement between the European Union and the United Kingdom in dealing with the consequences of that momentous decision.

### **Brexit: Project or Process?**

However, as the Taoiseach outlined in his speech to the British Irish Chamber of Commerce on September 5th and reiterated to Prime Minister Johnson last week, the story of Brexit does not end if the UK leaves the EU on October 31st or at a later date.

Instead, we would just enter a new phase.

Because the UK’s relationship with the EU is in flux and contingent, Brexit is a process with a still to be determined conclusion.

And whether there is a deal or whether there is no deal, we will still be faced with very many of the same issues.

If there IS a deal, we are going to enter several years of negotiations on a new Free Trade Agreement.

That will be challenging.

There will be difficult discussions and even more difficult decisions to be made on tariffs, customs, quotas, product standards, State Aid, minimum standards for the environment, workers’ rights, visa regimes and, not forgetting, fishing rights, aviation landing rights between the UK and the EU, including Ireland and many other issues across many sectors of activity.

And, if there is No deal, then at some point we will have to begin negotiations again.

The first items on the agenda would be citizens’ rights, the financial settlement with the EU and a solution to the Border.

All the issues we resolved in the Withdrawal Agreement will have to be addressed before we can even begin to negotiate a new trade relationship.

All the work that has been done to date will have to start again, but this time with the UK as a third country, without the stability of a transition period as it adjusts to life outside the EU.

So crucially, this phase of the Brexit process is just that – a phase, with many more to come. This is critical in seeking to achieve an orderly outcome to our current challenges.

The evocation of Samuel Beckett – ‘I can’t go on, I will go on’ may be appropriate to the work yet to come.

## **EU-UK Future Relationship**

This spirit may be required when we consider intentions regarding the future relationship between the E.U and U.K. It seems evident that the new British Government wants scope for regulatory divergence from the European Union whether or not there is a deal.

This appears clear from the letter Prime Minister Johnson wrote in August to the President of the European Council Donald Tusk when he stated in relation to the Backstop that:

“It is inconsistent with the UK’s desired final destination for a sustainable long term relationship with the EU. When the UK leaves the EU and after any transition period, we will leave the single market and the customs union. Although we will remain committed to world class environmental, product and labour standards, the laws and regulations to deliver them will potentially diverge from those of the EU. That is the point of our exit and our ability to enable this is central to our future democracy”. The conclusion, “central to our future democracy” is worthy of reflection.

The challenges and opportunities that Ireland will face in the medium term will be heavily influenced by how far the United Kingdom decides to diverge from the European Union.

And while the Irish Government will absolutely respect the choice of the British Government to pursue a path of regulatory divergence from the EU, there are clear implications for this island and the Good Friday Agreement that cannot be ignored in the event that this becomes its policy.

We must also recognise the reality that in our global era, where the separate regulatory superpowers of the US, the EU and China co-create global rules, this could be a very significant decision.

As such, were the UK to pursue a policy of regulatory divergence from the EU, there are very profound implications for the protection of the single market on this island which constitutes the UK’s sole land border with the EU.

This reminds us, therefore, of the vital importance of the backstop and the importance of regulatory alignment on this island.

The economic response to such a choice should be the following:

- Double down on our membership of the single market while working with our partners to deepen and expand it;
- Maintaining our focus on enhancing the productive capacity of our economy through the Future Jobs programme; and
- Continuing to invest in critical public infrastructure across the economic cycle.

### **Preparing the Economy for Brexit**

So the medium and long term challenges are significant. But, of course, we are understandably focused on the immediate challenges.

In reflecting on them, it is important to recognise that the economy is in a much stronger position to respond than it was on the eve of the 2008 financial crisis.

Since 2011 we have diversified our economy and economic activity is more balanced.

For example in the bubble years, nearly 10% of the labour force was employed in construction; the figure is now around 6%.

Credit growth over 2005-2009 averaged over 20% per annum: over 2015-2019 it is broadly level.

When it comes to the public finances, the contrast is even starker.

At the peak of the last economic boom, day to day spending grew by 57%, between 2005 and 2009 - an average increase of 11% each year.

By contrast, between 2015 and 2019 as we emerged from the bailout period and with significant pent-up demands and pressures in our economy and society, day to day spending has grown by a much more modest 19% - an average annual growth rate of about 4%.

Since the referendum result in 2016, Brexit has been a central element in the Government's decision-making, and in the management of our economic and fiscal policy.

The Government has been taking steps to boost the resilience of the economy by:

- Balancing the Budget;
- Reducing our debt burden;
- Developing the Project Ireland 2040 capital investment and regional development plan;
- Establishing the Rainy Day Fund.

We are supporting our companies to prepare for Brexit, to diversify their markets and supply chains, to develop new skills and to explore new opportunities.

In addition, recent budgets have introduced specific initiatives, such as loan supports for agri-businesses and SMEs aimed at supporting those businesses most affected by Brexit.

But, we need to get ready for whatever the future post Brexit landscape may hold and we are doing this in three key ways:

- Delivering the Appropriate Fiscal Stance in Budget 2020;
- Safeguarding Peace in Northern Ireland Through the Backstop; and
- Deepening Our EU Relationship and Building New Alliances.

I will briefly address each of these issues in turn.

### **Delivering the Appropriate Fiscal Stance in Budget 2020**

In this year's Summer Economic Statement, the Government set out two potential budgetary scenarios, one involving an orderly Brexit and the other involving a 'no deal' Brexit.

Given the lack of clarity regarding the timing and format that the UK's exit will take, I announced last week that Budget 2020 will be framed on the assumption of a 'no deal' Brexit.

Three main factors influenced the Government's approach:

- Firstly, to give certainty to businesses and citizens that the Government is prepared for a no-deal Brexit and stands ready to support the economy in such a scenario.
- Second, to safeguard the hard won progress of recent years in stabilising the public finances.
- Finally, to avoid a situation in which decisions made in the Budget might need to be reversed in future.

Assuming a no-deal Brexit ensures the Government has the necessary resources at its disposal to meet the impact of this exceptional challenge, whilst preserving the longer-term sustainability of the public finances.

So the approach I am adopting for Budget 2020 involves a twin track approach, namely:

- Funding services and making progress on particular policy areas; and
- Supporting sectors and regions most exposed to Brexit related disruption.

In a 'no deal' scenario, the Government will make the resources available to support those in need to, and introduce timely, targeted and temporary supports to the sectors of the economy most exposed to the impact of a no-deal Brexit.

While the precise impact will be difficult to estimate, this could lead to a deficit of the order of ½ to 1 ½ per cent of GDP for 2020.

And while there is no doubt that this would be a significant fiscal setback, it is also important to place it in the context of our recent strong performance in restoring the public finances – for example moving from a 2% deficit in 2015 to balance last year while meeting the demands of a society recovering from a decade of austerity.

As well as preparing for Budget 2020, key areas for continued work at Government level will include additional infrastructure for ports and airports, and further Government Brexit communications including an intensified engagement programme by Revenue, focussed on individual businesses and including targeted letters and follow-up phone calls.

### **Safeguarding Peace in Ireland through the proposed Backstop**

Turning to our island, the UK's departure from the EU poses an unprecedented challenge for the island of Ireland and for Northern Ireland in particular.

Our shared European membership has been central to bringing peace to Northern Ireland.

In the Brexit negotiations we have insisted on protecting the cooperation on our island between North and South that flows from and underpins that Good Friday Agreement – an Agreement that saves lives.

Northern Ireland is part of the UK but it is unique and complex in terms of the political settlement that has maintained peace for 21 years.

It is a peace that both British and Irish Governments co-guarantee.

The EU and UK agreed the 'backstop' on the basis of a shared understanding of the need to address the unique circumstances of Northern Ireland to provide the guarantee necessary to reassure a concerned public.

Some have expressed concerns that the Withdrawal Agreement and the Protocol on Ireland / Northern Ireland go against the principle of consent contained in the Good Friday Agreement.

This is clearly not the case.

The first line of the Protocol, and the first clause of the backstop, reaffirm very clearly the principle of consent.

The second clause reaffirms the territorial integrity of the United Kingdom.

The Government will never undermine the principle of consent, which is the basis for the Good Friday Agreement, and is enshrined in the Constitution.

This principle holds us together, across the political spectrum on the island of Ireland. But no one wants to see the unintentional loss of enormous benefits that the border as it is now – seamless, unobtrusive and barely perceptible – brings to businesses and families on this island.

I understand the fears that some in the Unionist community have expressed about the backstop.

The Government takes these concerns very seriously, as we do the concerns of everyone who is troubled by Brexit and its potential impacts on both parts of our island.

However, the backstop should not be viewed as a challenge to Unionism.

Its purpose of the backstop is to provide certainty, to businesses and communities on both sides of the border that they will be able to continue to operate and go about their daily lives as they do today. Nothing more.

It represents a compromise – it is not the status quo.

And it is not the same as Northern Ireland staying in the EU.

The Government has always been prepared to look at modifications, improvements or alternative arrangements that would secure the same outcomes while amplifying the forms of consent and inclusion that underpin the Good Friday Agreement.

It is clear that a No Deal Brexit is bad for everyone on these islands and everyone involved is working very hard to avoid that.

It is equally clear, as Arlene Foster has said in the past, that a solution has to recognise the unique geographical and historical situation of Northern Ireland.

In the spirit of the Good Friday Agreement, we are working to reconcile the interests of both unionism and nationalism.

In the absence of that solution, our work with the European Commission has intensified with the goal of at least avoiding physical infrastructure at the border in the event of a no deal Brexit.

This will help to mitigate the risks to the Good Friday Agreement.

But there should be no doubt that should the UK decide to leave the EU without a deal, the risks for Northern Ireland and the Good Friday Agreement are very significant.

### **Deepening Our EU Relationship and Building New Alliances**

Turning to our relationship with the EU, our membership has been central to the success of our small, open, trading and competitive economy.

Membership of the Single Market and the Customs Union is a core element of our economic strategy.

Access to the Single Market has allowed our economy to prosper and has greatly assisted in generating investment – both foreign sourced and domestic.

It has given us full access to EU trade agreements with other major international markets and a capacity to engage in global free trade that we could not possibly have on our own.

The best response to an asymmetric supply side shock such as Brexit, which risks disrupting access to our nearest market is for Ireland to be ever more open to the opportunities of the European Single Market.

While the early post-Brexit period will be challenging, Ireland will retain the openness to trade, to investment, to ideas and to talent that represents one of our key strengths.

This openness will be a source of economic strength for Ireland in a post-Brexit Europe.

Kevin O Rourke, Professor of Economic History at Oxford University, has written extensively about Ireland's story of economic convergence through the decades since independence. He notes in his recent book 'A Short History of Brexit', that:

“It seems clear, not only that the European Union was fundamental in transforming the Irish economy, but also that independence was essential in exploiting the opportunities that the European Union afforded”.

In other words, while membership of the European Union was a necessary condition for Ireland's economic convergence, it was not sufficient. What also mattered were the discreet policy choices made in Ireland by successive Governments such as those to progressively open up the economy to free trade, attract foreign direct investment including through use of the tax system, and invest in human capital by means of free education.

This will continue.

In the future, in an ever closer Union, our capacity to exploit the full opportunities of the EU and the Single Market will significantly depend on our level of influence among the 27 member states.

This is why a key priority since 2016 has been to strengthen our other bilateral relationships within the EU.

We have been working hard to build productive and mutually beneficial relations with our colleagues across EU Member States.

A particular focus of mine has been the Nordic Baltic group of countries, along with the Netherlands, the so-called new Hanseatic League or 'Hansa Group' for short.

I meet with my colleagues from these Member States at ECOFIN on a regular basis, as I do all my EU colleagues.

This has become an important space to share ideas and develop thinking on some of the most pressing issues that we are faced with.

As a group of outward facing, small, open and liberal economies we understand that our ability to promote growth, job creation and prosperity for our citizens at home is strengthened by working with partners to shape the EU agenda, and this is what we are doing.

This engagement at "Hansa level" is part of a wider strategy of deepening our relationships with all member states.

This is particularly the case in sensitive areas such as the development of the Economic and Monetary Union, or the EU Budget.

## **Conclusion**

In conclusion, I would like to recall the words of John Hume, who alongside David Trimble, was a deserved recipient of the 1998 Nobel Peace Prize.

Speaking in 2004, he recalled that 'The European Union is the best example in history of the world of conflict resolution'.

It is easy to forget the EU's standing as an unrivalled peace project.

The EU has not just helped to bring peace in continental Europe, but played a central role in bringing peace to this island also.

In essence, our membership of the EU transformed the context in which we addressed our age old National Question - that of understanding and defining our relationship with Northern Ireland and the UK.

As Britain prepares to leave, once again our National Question has been crystallised by the diverging paths the UK and Ireland will follow in their future relationships with the EU.

Layered on top of this changed context for our national question is a newer challenge: how to deal with the shift in globalisation we are beginning to see today.

The shift from openness, free trade and immigration, and the shift to closed borders and economic nationalism.

In particular, how to deal with this shift as a small, open economy that is deeply embedded in the global economy.

I believe this is a new National Question we are facing today and that the Brexit process and the profound challenges of political economy, diplomacy and geopolitics that it confronts us with compel us to seek answers.

It falls to this generation of politicians and citizens to deal with both of these Questions - together.

Ladies and gentlemen, as the Taoiseach has previously recalled, at least four times so far in our history we have travelled a different road to the United Kingdom: when we gained independence a hundred years ago, when we became a Republic, and left the Commonwealth; when we broke the link with Sterling and when we joined the Euro 20 years ago this year.

On all occasions we faced enormous challenges but we emerged stronger and continued to maintain our exceptionally close social, cultural, political and economic connections with the United Kingdom throughout.

It falls to us, to rise to this challenge again, and with patience, imagination and critical thought and inquiry I believe we will.

Thank you.