



BREXIT & IMPLICATIONS FOR IRISH TOURISM

A Briefing Paper by the Irish Tourist Industry Confederation

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Context

Following a negotiated United Kingdom (UK)/European Union (EU) deal, the date of 23rd June 2016 has been set by Prime Minister David Cameron for UK voters to go to the polls for an “in/out” referendum vote on the UK’s membership of the EU. The British Prime Minister has negotiated a UK-EU reform package or a “special status agreement” which will take effect immediately should the UK vote to remain within the EU. These changes include protection for the City of London’s financial services sector and the British currency outside of the euro zone; guarantees on sovereignty and the introduction of a ‘red card for national parliaments’; and concessions on welfare and child benefit entitlements for immigrants.

The referendum, known as Brexit - an abbreviation of “British Exit” – is expected to be a close contest with David Cameron and most of his Conservative cabinet in favour of remaining within the EU although some cabinet ministers, as well as high-profile Mayor of London Boris Johnson, supporting UK leaving the EU. The situation is further complicated by the fact that the Scottish National Party (SNP), who have a strong majority within the Scottish Assembly, are pro-European and have stated that a vote in favour of Brexit would trigger another Scottish independence referendum. In Northern Ireland the Democratic Ulster Party favour Brexit contrary to the position of Sinn Fein, the SDLP and the Alliance Party.

As the UK is Ireland’s largest trading partner it is self-evident that should Brexit happen the resulting changed relationship between the UK and the EU could potentially have far-reaching consequences. As tourism is a key component of our economic relationship with the UK it is important that the implications, if any, for Ireland’s tourism industry of a possible Brexit are considered. Britain remains Ireland’s largest single source market for inbound visitors with, according to the Central Statistics Office, 3.55 million visitors coming to Ireland in 2015, a market valued at circa €995 million to the economy.

This short briefing paper by the Irish Tourist Industry Confederation (ITIC) looks at the implications of the Brexit referendum on Irish tourism. It should be stated at the outset that the outcome of the referendum is difficult to predict. Furthermore should Brexit happen the ultimate consequences of a UK exit from the EU are extremely difficult to forecast or quantify with a number of variable factors at play. However it is possible to conceive of a number of possible scenarios as outlined below.

If the UK votes *to remain* within the EU

The most benign outcome for Irish tourism would be a vote by the UK to remain within the EU. This would mean that there would be little, or no, impact on Irish tourism, other than the possibility of some inconvenience for travellers due to tighter border controls as a result of the recent UK/EU negotiations.

If the UK votes *to leave* the EU

In the event of a UK vote to leave the EU the picture is far from clear in terms of its impact on the wider British and Ireland economies and Irish tourism in particular. Current EU rules provide that – if such an eventuality were to pass - a two year period for withdrawal commences so the true impact of a Brexit would not be felt until mid-2018. It is likely that during this two year interregnum a withdrawing UK would seek a new trading relationship with the EU - as other non-EU countries such

as Norway and Switzerland currently enjoy - although it is by no means assured that the EU would be open to such an approach after the UK voted to exit its economic bloc. The position taken by Germany and France in this regard would be critical.

One of the scenarios most frequently mentioned is that a post-Brexit UK would seek membership of the European Free Trade Association (EFTA) which promotes free trade and economic integration. Current members of EFTA include Switzerland, Norway, Iceland and Liechtenstein. Ironically the UK was a founding member of EFTA in the early 1960s, but the association has changed considerably since that time.

While Switzerland has negotiated a series of bilateral agreements with the EU, the other EFTA members, Norway, Iceland and Liechtenstein, are also part of a joint European Economic Area (EEA) Agreement with the EU. The EEA, which came into force on 1st January 1994, brings together all EU member states and Iceland, Liechtenstein and Norway in a single market, referred to as the "Internal Market". The EEA Agreement provides for the inclusion of EU legislation covering the free movement of goods, services, persons and capital. It is thought however unlikely that the UK would join the EEA after any Brexit as it would result in accepting more EU regulation with less of a say than at present.

From an Ireland perspective some form of negotiated relationship between the UK and the EU, post-Brexit, would appear to be least damaging to economic relations. A stand-alone trade deal between Ireland and the UK after a Brexit is not an option due to the common customs area unless Ireland was to follow the UK out of the EU which would seem very unlikely.

Europe is likely to be significantly disadvantaged by Brexit as the UK is forecast to become the largest European economy by 2050. Germany, currently Europe's economic leader, is set to see a 20 million decline in population to 60 million due to its ageing demographics and low birth rate, while over the same period the UK's population is expected to go in the opposite direction and increase to 80 million. This prospect, and the economic realities therein, is likely to bring about a trading deal with the EU in the event of a Brexit.

Possible impacts on travel and tourism of a Brexit

The implications of a UK vote to leave the EU on the Irish tourism industry will very much depend on the terms of engagement that are negotiated post-exit between the UK and remaining EU bloc. A critical factor will be if, how, and to what extent, the UK chooses to access to the EU single market in transport and in other allied sectors. While it is not possible to predict the future, noticeable impacts could be expected in 3 primary areas:

- Border controls
- Transport
- Competitiveness, currency fluctuation and investment uncertainty

Border controls

Renewed border controls between the Republic and Northern Ireland, while a possibility, is an unlikely prospect as there is already a common travel area in force. However, with a withdrawal of the UK from the EU, the Republic's border with Northern Ireland would by definition become an external EU

border. However as both Ireland and the UK are outside Schengen, the implications for movement of people is unlikely to be significant, as the two countries already implement border controls on flights between UK and Ireland, instigated by the Irish Government 10 years ago, despite the common travel area. The implications of a Brexit however for the movement of goods and services in terms of customs, is less certain without an alternative arrangement being put in place.

Transport

The primary transport benefit of EU membership has been the liberalisation of air travel whereby any EU owned and controlled carrier is free to operate anywhere within the EU without restrictions on capacity, frequency or pricing, as well as benefiting from EU “open skies” agreements with a number of external countries, including USA and Canada. Should the UK vote to leave the EU it could still participate, post-Brexit, in the European Common Aviation Area (ECAA) which would provide UK airlines with access to the single aviation market.

ECAA already extends the liberalised aviation market beyond the EU member states to a total of 36 countries including Norway, Iceland, Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Kosovo. Membership of ECAA would involve the UK continuing to commit to EU aviation law and regulation, including safety, security, air traffic management, the environment, social (labour) issues, consumer rights and the economic regulation of airports. Therefore assuming the UK joins the ECAA the effects of a Brexit vote would mean little change to air transport in terms of route access, capacity or pricing.

In recent times Ryanair’s Michael O’Leary, easyJet’s Carolyn McCall, and former boss of the TUI Travel Peter Long have each come out in favour of UK remaining within the EU and warning of the adverse impact of Brexit on the UK travel market. IAG’s Willie Walsh has also spoken out on the danger of uncertainty surrounding Brexit. Such concerns have tended to highlight the potential negative impact of a Brexit to the wider UK economy rather than identifying significant air transport implications.

At this point it would seem unlikely that, post-Brexit, there would be a loss of competitiveness between Irish-based or owned ferry operators or coach companies with their UK equivalents as the latter would still likely comply with the EU regulatory regimen.

On a positive note the possibility of a return of Duty Free shopping for travel between Ireland and the UK – and its associated benefits for gateways and carriers - could be a possibility if the UK withdraws from the EU.

Competitiveness & the wider British economy

Outside of the direct implications for the travel and tourism industry, a Brexit could result in a scenario whereby Ireland’s wider economy is competitively disadvantaged. A recent report from the ESRI¹ suggested that a vote in favour of Brexit could lead to a 20% reduction in bilateral trade between the UK and Ireland. The ESRI report identified a loss of about €10 billion annually in trade, challenged the assumption that Ireland would attract more FDI if the UK leaves the EU, and also suggested that a Brexit could restrict the free movement of labour between the two states. While these predictions if

¹ *Scoping the Possible Economic Implications of Brexit on Ireland*, (published 5 November 2015)

they came to pass would be detrimental to Ireland's economy, they would also endanger the sustainability of the current level and frequency of air and ferry transport between the two islands.

The uncertainty about Brexit is already having an impact on the value of sterling which, on announcement of the referendum date, fell to a 13 month low against the euro. Investment Bank Société Générale expect sterling to further weaken ahead of the referendum as the debate continues and uncertainty undermines confidence. A weaker sterling by its nature means that leisure or business travel to euro zone countries, such as Ireland, will represent less value for money. A vote to leave the EU could hit sterling by as much as 20% suggests investment bank Goldman Sachs although economists have varying views on the long term impact on currency movements of a Brexit.

Ratings Agency Moody's amplified investor concerns on February 20th warning that a vote to leave the EU might affect Britain's credit rating. Moody's said the "economic costs" of a decision to leave the EU would "outweigh the economic benefits", and said it would consider "reflecting those threats to the UK's credit standing by assigning a negative outlook to the sovereign's Aa1 rating following a vote to exit".

Should the UK's economic wellbeing be damaged by the impact of a Brexit all trading partners, including Irish tourism, would suffer the consequences.

Conclusion

The current polls suggest that the outcome of the UK referendum on Brexit is difficult to predict. From an Irish tourism perspective a vote by the UK to remain within the EU would be preferable. Should UK voters instead choose to exit the EU a new trading relationship in all likelihood would need to be negotiated between the UK and remaining EU members including Ireland. The terms of this new relationship are impossible to forecast accurately at this point. The resultant uncertainty is likely to negatively affect Irish tourism, primarily in terms of a possible loss of competitiveness as sterling weakens. Uncertainty could also negatively impact business travel, the choice of Ireland as a venue for major conferences and events, as well as the island of Ireland's bid for the IRB 2023 World Cup.

A Brexit could also have a possible impact on how Ireland is marketed abroad as an island of Ireland destination. Further consequences cannot be ruled out depending on the new relationship, if any, negotiated in the aftermath of a UK vote in favour of an exit.

It is ITIC's intention to revisit this analysis of Brexit's possible implications for Irish tourism as the UK referendum nears.