



An Roinn Gnó, Fiontar agus Nuálaíochta
Department of Business, Enterprise and Innovation

Building Stronger Business

Responding
to Brexit by
competing,
innovating
and trading



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Foreword from Taoiseach

Brexit poses unprecedented economic, social, political and diplomatic challenges for Ireland. So, for the past year and more, the Government has been pro-active and strategic in ensuring a coherent, whole-of-Government response to the UK decision to leave the EU.

This work – one of the largest undertakings by the Irish Government over the last fifty years – has ensured that all our concerns are now clearly understood by our EU partners and the UK. The influence of this work was seen early in the process, with clear references to specific Irish issues in the major documents which guide the exit negotiations.

Brexit presents challenges to our peace, and challenges to our prosperity, but we are confident that with the right approach we can protect both. Brexit is not an EU policy nor an Irish policy, so to avoid negative consequences for Europe and for Ireland we want to ensure an optimal negotiating outcome is reached and appropriate enterprise-focussed measures are taken at European and national level.

The Government is intensifying its focus on the potential economic implications of Brexit, including on domestic policy measures, to prepare our economy both to minimise the risks and maximise the opportunities associated with Brexit.

Our priorities are clear:

- > Minimising the impact on trade and the economy;
- > Protecting the Northern Ireland Peace Process;
- > Maintaining the Common Travel Area; and
- > Influencing the future of the European Union.

This Paper by the Department of Business, Enterprise and Innovation focuses on businesses given that they are already dealing with the consequences of the Brexit referendum result. The Government is responding with supports to help make companies more resilient in the face of changes to come because of Brexit but also because of broader global challenges. We are focussing on deepening national and firm level competitiveness, fostering product, service and process innovation within companies and working with businesses to diversify their trade with the world.

The Government is unequivocal in its belief that Ireland's interests are best served by remaining a fully committed member of the EU. The Future of Europe is being discussed now by EU Heads of State and we will have a strong voice in that debate.

To ensure that we take an informed position in that debate we are organising a series of public engagements to hear the views of citizens in Ireland – together we need to consider how best the EU can evolve to continue to improve the lives of citizens and to support jobs and enterprise.

The negotiations between the EU and the UK are now at an important stage. While we have achieved good progress, there is more work to be done in order that we can move to the next phase as soon as possible.

The Government will continue to ensure that Ireland's interests are best served at all stages to achieve the best possible outcome for all of our people.

Leo Varadkar TD
Taoiseach

Foreword from Tánaiste and Minister for Business, Enterprise and Innovation



The Government is intensifying its focus on the economic implications of Brexit, including on domestic policy measures to reinforce the competitiveness of the Irish economy, to strengthen it to deal with potential negative impacts of Brexit, and to pursue all possible opportunities that might arise.

Reflecting the extensive preparatory work and consultations on the island of Ireland and at EU level, the Government's Paper published in May outlines the positions and priorities that will underpin our engagement in the Brexit process as it unfolds over the coming years.

This paper focuses on the response of the Department of Business, Enterprise and Innovation which I am leading with the support of Minister Breen and Minister Halligan. It summarises the policy measures we have already taken, those we plan to take, our research programme designed to inform these policies, and the Departmental structural reforms put in place to ensure that we can work as efficiently and effectively as possible to support our companies.

Of course, it does not stand alone. It forms an integral part of the Government's overall strategy and response to Brexit which is underway across all Departments and Agencies.

Ultimately, the enterprise agenda of my Department and our Agencies is focussed on growing jobs through growing business. We achieve this by increasing exports and inward investment. Our policies, programmes and supports to enterprise are centred on fulfilling this agenda.

Brexit heightens the importance of this agenda but should not deflect us from our long-term, core goals. In the context of Brexit, our strategy is to minimise risks and maximise opportunities by ensuring the growth and resilience of Irish enterprise working across four pillars which are:

- **Helping Firms to Compete:** We are working across Government to create the best environment for business to grow, export and create jobs. Key elements include ensuring that firms have access to finance, our tax regime and infrastructure spend promote national competitiveness and the Agencies are appropriately resourced to help business focus on competitiveness at firm level.
- **Enabling Firms to Innovate:** As part of our strategy to become a Global Innovation Leader, we are targeting R&D funding through our Agencies to support innovation in new products and processes which firms need to compete and grow and to invest in the pipeline of the next generation of innovators through a new postgraduate researcher programme.
- **Supporting Firms to Trade:** We are supporting firms to start exporting, to grow their exports in existing markets and to diversify into new markets and regions. We will continue to attract overseas investment while working with EU partners to expand the portfolio of Free Trade Agreements.
- **Negotiating for the Best Possible Outcome:** We are working across government to ensure we get the best outcome possible for business from Brexit negotiations. DBEI is leading a range of Brexit research projects which will provide an extensive evidence base and valuable analysis to inform and guide Ireland's position within the EU-27.

In identifying new actions to support our companies, we must also be cognisant of all of the existing supports that are in place. We intervene in markets and support companies in a variety of ways – the challenge is to ensure that these interventions remain relevant, appropriate and effective, and that all of our companies, across the full spectrum of sectors, are enabled to the extent possible to trade successfully and grow.

Our response to the UK decision to leave the EU has been evolving significantly over the last year and more. This paper represents a point in time and our response will continue to evolve in the months and years ahead as the future relationship between the UK and the EU becomes clearer.

Frances Fitzgerald TD

Tánaiste and Minister for Business, Enterprise and Innovation



Pat Breen TD

Minister of State for Trade, Employment, Business, EU Digital Single Market and Data Protection



John Halligan TD

Minister of State for Training, Skills, Innovation, Research and Development

The Department of Business, Enterprise and Innovation (DBEI) plays a key role in implementing the Government's policies to stimulate the productive capacity of the economy and create an environment which supports job-creation and jobs maintenance. Brexit impacts upon all of these areas, and on many others within the Department's remit. This paper, therefore, focuses on the response of DBEI to the range of challenges and opportunities arising as a result of Brexit.

It comprehensively sets out DBEI's positions and priorities that will underpin our engagement in the Brexit process as it unfolds over the coming years and assist us to respond to wider global trade and economic developments. Our strategy is to minimise risks and maximise opportunities by ensuring the growth and resilience of Irish enterprise post-Brexit working across four pillars which are:

- > **Helping Firms to Compete:** We are working across Government to create the best environment for business to grow, export and create jobs. Key elements include ensuring that firms have access to finance, our tax regime and infrastructure spend promote national competitiveness and the Agencies are appropriately resourced to help business focus on competitiveness at firm level.
- > **Enabling Firms to Innovate:** As part of our strategy to become a Global Innovation Leader, we are targeting R&D funding through our Agencies to support innovation in new products and processes which firms need to compete and grow and to invest in the pipeline of the next generation of innovators through a new postgraduate researcher programme.
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- > **Negotiating for the Best Possible Outcome:** We are working across government to ensure we get the best outcome possible for business from Brexit negotiations. DBEI is leading a range of Brexit research projects which will provide an extensive evidence base and valuable analysis to inform and guide Ireland's position within the EU-27.

To support this work, **structures** have been put in place to ensure a coherent approach across the Department and our Agencies – these are detailed in Appendix 1. To help inform and validate our ongoing research and analysis we are engaging extensively with domestic **stakeholders** both at an individual level and through a range of enterprise and innovation related fora. DBEI officials based in the Permanent Representation in Brussels, the Embassy London and at the WTO in Geneva are also essential to our Brexit response, engaging with other Member States and institutions and sharing intelligence with the wider Departmental system.

At Ministerial and official level, we are central to **the diplomatic effort** across Government engaging our EU partners including the European Commission, individual Member States and the European Parliament. This has led to a much greater understanding and appreciation across the EU of the uniqueness of Ireland's relationship with the UK and the potential impact of Brexit on Ireland. We are also engaging with counterparts in the UK at Ministerial and official level to deepen bilateral contacts generally and to ensure that our concerns regarding the potential impact of Brexit on Irish enterprise in particular are well understood.



Many of the challenges facing our economy and our enterprise base reflect longer term global trends. Brexit, however, is acting as a catalyst, bringing these challenges into sharper focus.

Of course, in parallel we are working with our fellow member states on the **future agenda of the EU**. Membership of the Single Market and Customs Union is a core element of our economic strategy – including in attracting business, both over the decades and more recently. For example, the recent trade deal between the EU and Japan is providing new opportunities for Irish exporters. We must remember that even after Brexit, the EU will remain a marketplace of over 450 million people.

In terms of our policy response, the focus has been to assess the possible implications and impacts of Brexit across policy areas of the Department and to review, renew and recast key policy approaches and interventions in the economy as appropriate. We are leveraging the expertise and enhancing the capacity of our **enterprise agencies** to ensure that they are in the best possible position to address the needs of their clients in relation to competitiveness, innovation and trade diversification. This is being achieved through the provision of information, advice, training and other supports.

Finally, we are examining possible **State supports** to help vulnerable firms to adapt, to reinforce enterprise and employment across all sectors and regions.

Many of the challenges facing our economy and our enterprise base reflect longer-term global trends. Brexit, however, is acting as a catalyst, bringing these challenges into sharper focus, expediting the need for firms to respond and adapt. This in turn requires that the Department, and indeed the entire Government system, continue to develop effective policy responses to support enterprise.

It is important to acknowledge, however, that the majority of policies and interventions that are already in place to support enterprises and to help them grow and diversify remain relevant. The challenge now is to identify the additional specific policies that are required to address Brexit and emerging global challenges and opportunities.

The first table below summarises the broad strategic responses by DBEI to Brexit, while the second table summarises the more specific mitigation measures already underway or planned under the auspices of the Department and its Agencies. These are contextualised and elaborated upon throughout this paper.

Commitment	Timeline
<p>Policy: Complete the Action Plan for Jobs 2018 with a specific focus on Brexit mitigation policies</p> <p><i>Develop actions which can commence in 2018 to support firms to overcome the challenges and to take advantage of opportunities presented by Brexit</i></p>	Q1 2018
<p>Policy: Complete the Review of Enterprise 2025</p> <p><i>Ensure enterprise policy framework remains robust in context of Brexit</i></p>	Q1 2018
<p>Budget: Secure sufficient capital funding and resources to assist the enterprise agencies to support firms respond to Brexit and global challenges</p> <p><i>Secure the necessary resources to grow our enterprise agency footprint overseas.</i></p>	Ongoing
<p>Finance for business: Follow up on notification to the European Commission in relation to the rescue and restructure scheme</p>	Ongoing
<p>Research: Complete the study “Strategic Implications Arising from EU-UK Trading Patterns”</p>	Q4 2017
<p>Research: Complete the study “Sectoral Implications of Brexit for Irish SMEs”</p>	Q4 2017
<p>Research: Complete the study “Impact of WTO Tariffs on Cross-Border Trade” (Phase 2)</p>	Q4 2017
<p>Research: Complete the study “Import Content of Irish Exports: Implications of Brexit for Inputs and Competitiveness”</p>	Q1 2018
<p>Research: Complete the study “Addressing the Skills Needs Arising from the Potential Trading and Regulatory Implications of Brexit”</p>	Q1 2018
<p>Research: Complete the study on “Potential Financial Impacts of Brexit on Irish Consumers”</p>	Q4 2017
<p>Sectors: Include sector specific Brexit messages and mitigation measures (building on the outputs of the various DBEI studies and stakeholder consultations) in the planned update of DBEI sector briefs</p>	Q2 2018

DBEI and Enterprise Agency Mitigation Measures

Funding for Enterprise

- › Develop proposals compatible with the EU State Aid Framework for a longer-term Investment Loan Guarantee Scheme.
- › Design and develop a Business Advisory Hub to assist SMEs to make informed funding/investment decisions as they respond to Brexit and other strategic challenges.
- › Engage with the European Commission on the approval process for the notified rescue and restructure Scheme, and on all Brexit-related State Aid issues.

Addressing the Regional Impact of Brexit

- › Through the Local Enterprise Offices, provide information, financial advice, training and mentoring to businesses impacted by Brexit.
- › Continue to support new start-ups and business expansion, in particular to businesses with export potential, through the network of Local Enterprise Offices.
- › Continue to support firm level competitiveness and innovation amongst small and micro-enterprise cohorts through tailored supports including Lean4Micro and other targeted training initiatives.
- › Roll-out the Enterprise Ireland Regional Investment Fund with a 2nd call for proposals with funding of €25 million in Q1 2018.

Actions to Support the Retail Sector in Ireland

- › DBEI will engage in bilateral discussions with relevant Government Departments to highlight the concerns of the retail sector and to identify solutions or supports for the sector to reduce the impact of Brexit.
- › DBEI will engage with DES to identify how to address the skills' needs of the sector in a hard Brexit scenario.

Enterprise Ireland

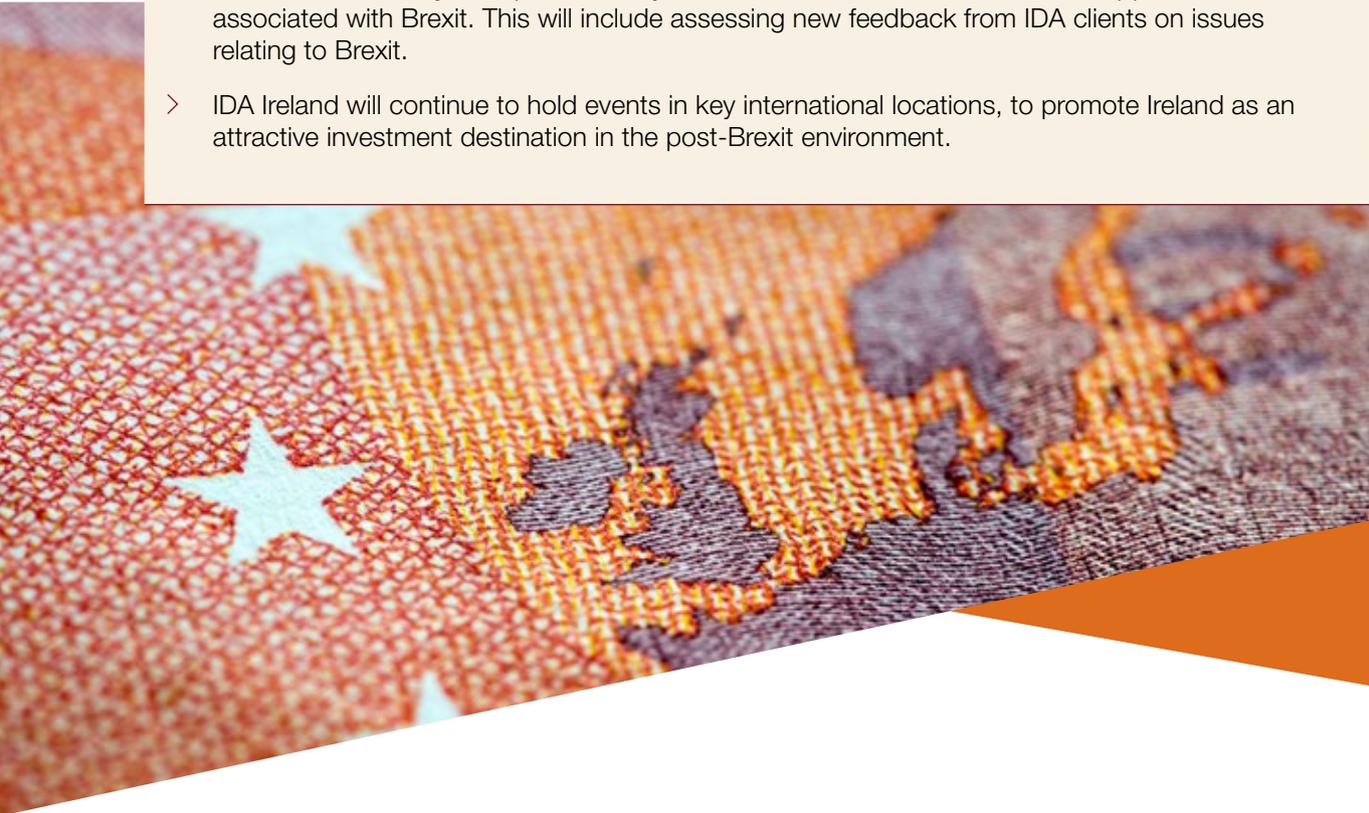
- › Enterprise Ireland will over the immediate term, continue to engage one-to-one on a regular basis with clients to support their preparations for Brexit.
- › Enterprise Ireland will promote increased awareness and preparation across the economy for the various challenges posed by Brexit through the Brexit Scorecard.
- › Enterprise Ireland will promote export ambition and market diversification among clients through the Global Ambition Campaign.
- › Enterprise Ireland will develop stabilisation options to ensure, where necessary, that larger, strategically important companies that are viable but vulnerable can make the necessary investment to overcome the challenges of Brexit.
- › Enterprise Ireland will support companies to maintain and grow opportunities in the UK market. At the same time, Enterprise Ireland will support companies to grow market opportunities in the Single Market (in particular in the Eurozone), and in third country markets
- › Enterprise Ireland will deliver an extensive programme of trade missions, trade visits, market study visits, inward buyer visits, market access programmes and other supports in support of market diversification in Q4 2017 and 2018.
- › Enterprise Ireland will roll out the #IrishAdvantage campaign to promote the attractiveness of Irish goods and services in export markets
- › Enterprise Ireland will continue to support companies with supports for innovation, competitiveness, management and financial capability to become more resilient in international markets and to compete with other economies (including the UK) as a location for investment.
- › Enterprise Ireland will continue to support new high potential start-ups across the regions and sectors to strengthen Ireland's resilience to global economic challenges.

Local Enterprise Offices

- › LEOs will prepare and disseminate a suite of online information addressing practical issues aimed at micro-enterprises.
- › LEOs will conduct a survey of locally trading businesses to better understand the exposure and opportunities arising from Brexit amongst this cohort.
- › LEOs will continue to be proactive in identifying client businesses that are exposed to Brexit and to help them to plan their response, including exploiting new opportunities and leveraging the suite of LEO supports available.
- › LEOs will seek to leverage the Regional Competitive Funds to drive collaborative initiatives and peer to peer networking amongst micro and small businesses in certain sectors and activities

IDA Ireland

- › IDA Ireland will continue to engage with current and prospective clients on Brexit and the potential implications of the UK's departure from the EU for their investment decisions.
- › IDA Ireland will carry out updated analysis and research on the FDI risks and opportunities associated with Brexit. This will include assessing new feedback from IDA clients on issues relating to Brexit.
- › IDA Ireland will continue to hold events in key international locations, to promote Ireland as an attractive investment destination in the post-Brexit environment.



Science Foundation Ireland

- › SFI will target globally-renowned researchers to relocate their research operations to Irish universities, thereby benefiting Ireland while also offering these researchers certain access to EU funding.
- › SFI will develop an Ireland-UK co-funded PhD studentship scheme that fosters collaboration between Ireland's higher education institutes (through the SFI Research Centres) and the top universities in the UK, while also growing Ireland's PhD numbers.
- › SFI will strengthen their research funding collaborations with the UK and Northern Ireland with the aim of ensuring that the Irish research community are well-positioned for the post-Brexit scenario, where Britain will continue to be a world-leader for innovation and R&D.
- › SFI and the National Support Structure for Horizon 2020 will support Irish researchers to diversify their alliances with other EU-based researchers, thus mitigating the current risk of over-reliance on UK partners.
- › SFI will scope medium and long-term post-Brexit opportunities for Ireland, with emphasis on identifying: a) H2020 industry/academic consortia in which UK researchers are prominent and where Irish researchers could be promoted as replacements – and will then run a scheme to promote the integration of the Irish research group; b) EU research infrastructures based in the UK, which could potentially be relocated to Ireland (e.g. the European Bioinformatics Institute).
- › SFI will increase the intensity and targeting of promotion of SFI's relevant programmes to UK-based researchers through a focused advertising and PR campaign.

Intertrade Ireland

- › ITI will continue the existing range of activities currently being managed under their Brexit Advisory Service.
- › ITI will initiate more intensive one to one clinics for SMEs, which will provide businesses with detailed advice on their specific Brexit-related challenges.

National Standards Authority of Ireland

- › NSAI will continue to work with clients, including indigenous enterprise, across the regions and sectors to provide Ireland with the components necessary for an effective trading infrastructure for products and services to be developed, traded, and relied on nationally and around the world
- › NSAI will work with IDA Ireland to contribute positively to the Irish 'offering' that can influence decisions on FDI, where organisations rely on a developed standards and conformity assessment infrastructure to achieve their objectives, such as in the medical devices sector.

Health and Safety Authority

- › The HSA Chemicals Helpdesk will support and assist enterprises in reviewing their chemical supply chains and identify how best they can address changing regulatory roles as a result of Brexit.
- › HSA will host a Chemicals Workshop to advise companies on the regulatory challenges they will face with Brexit under REACH, CLP, Export-Import and other chemical and market surveillance requirements.

Accreditation

- › DBEI will work to identify UK Notified Bodies and facilitate the introduction of these bodies to INAB.

1

Introduction

1.1 About the Department of Business, Enterprise and Innovation

The Department of Business, Enterprise and Innovation (DBEI) plays a key role in implementing the Government's policies of stimulating the productive capacity of the economy and creating an environment which supports job-creation and jobs maintenance. The Department also has a remit to promote fair competition in the marketplace, protect consumers and safeguard workers. Through its Agencies and Offices, the Department's remit covers a wide range of activity including:

- Facilitating the start-up and growth of indigenous enterprises,
- Attracting Foreign Direct Investment;
- Increasing exports;
- Improving competitiveness;
- Promoting innovation and growth through investment in research and development;
- Promoting fair competition for businesses and consumers;
- Ensuring fit for purpose, modern company law;
- Safeguarding the rights of workers, including their entitlement to occupational safety and health;
- Supporting and facilitating a positive industrial relations environment;
- Making evidence based policy, informed by research, analysis and robust evaluations;
- Identifying the future skills needs of enterprise; and
- Representing Ireland's interests in relevant EU fora, including the Competitiveness Council (incorporating Internal Market, Industry and Research), the Employment and Social Affairs (EPSCO) Council, and the General Affairs Council (meeting in its Trade formation).

We will lead on the creation and maintenance of high quality and sustainable full employment across all regions of the country by championing enterprise across government, by supporting a competitive enterprise base to incentivise work, enterprise, trade and investment and by promoting fair and competitive markets.

DBEI Mission

1.2 The Impact of Brexit on Enterprise

The UK's decision to leave the EU will have a profound effect on Ireland – their stated intention to leave the Single Market and the Customs Union undoubtedly poses a range of challenges for all firms, both those that are internationally trading, and those focused on the domestic market. The challenges will impact upon firms across a range of time horizons – from the immediate to the long-term.

For firms exposed to the international market, Brexit increases exchange rate volatility, impacts upon consumer demand in key markets, and potentially creates barriers to trade which could weaken or undermine the ability of Irish firms to maintain current trading relationships.

For firms dependent on the local, domestic market, the effects of Brexit are less direct, but potentially no less profound or challenging. As sub-suppliers of goods and services to exporting businesses, any upstream threat to their customer base will quickly impact upon the bottom line of such firms. More broadly, any slowing of growth in the UK economy as the impact of Brexit becomes more tangible will have knock-on effects on Irish growth potential. In part, however, the magnitude of impact of any UK slowdown on the Irish economy will depend on:

- > The final deal reached between the UK and EU, the extent to which access to markets is preserved, and the manner in which the border between the Republic and Northern Ireland is addressed;
- > The ability of firms to diversify their markets, enhance their level of innovation and maximise their cost competitiveness; and
- > The extent to which Irish mitigation policies are successful.

That said, Ireland is already recognised as a secure place to do business and Ireland has achieved a reputation as a low risk economy in which business can operate. Global competitiveness surveys consistently rank Ireland in the top tier of countries for business to operate in. These strong rankings are made possible in large part by the fact that we offer stability underpinned by appropriate regulation and legislation in areas such as competition, company law and consumer rights. Ireland's continued membership of the EU will support that stability into the future and offer legal certainty to business and consumers.

1.3 The Government's Focus on the Economic Implications



Given that the EU's initial negotiating position is now clear, the Government is intensifying its focus on the economic implications of Brexit, including on domestic policy measures to reinforce the competitiveness of the Irish economy, to protect it from potential negative impacts of Brexit, and to pursue all possible opportunities (e.g. foreign direct investment) that might arise.

Several important steps have already been taken to prepare our economy, including through a range of measures announced in Budgets 2017 and 2018, the commitments included in APJ 2017 (and to be outlined in APJ 2018), and the targets included in the Trade, Tourism and Investment Strategy. Brexit will be a critical factor in our longer-term economic strategy – a new 10-year Capital Plan is in preparation, and a draft of the National Planning Framework has been published. DBEI is providing significant inputs to these critical policies. Additionally, DBEI is undertaking a review of Enterprise 2025, to ensure that enterprise policy is sufficiently Brexit-proofed.

Brexit and the Department of Business, Enterprise and Innovation

Specifically, this paper focuses on the response of the Department of Business, Enterprise and Innovation (DBEI). It builds on all of this work, and comprehensively sets out DBEI's positions and priorities that will underpin our engagement in the Brexit process as it unfolds over the coming years, and assist us to respond to wider global trade and economic developments.

The enterprise agenda of DBEI and its Agencies is focussed on making "Ireland the best place to succeed in business, delivering sustainable full employment and higher standards of living across all regions of the country"¹. We achieve this by providing the framework within which enterprise operates, by supporting business at local and regional level, promoting exports and competing for inward investment. Our policies, programmes and supports to enterprise are centred on fulfilling this core agenda. Brexit should not deflect us from this agenda, but heightens the urgency and importance of delivering it. In relation to Brexit, our objective is to support firms to adapt to the challenges and opportunities Brexit presents by ensuring we have fit for purpose policies. Our strategy is to minimise risks and maximise opportunities by ensuring the growth and resilience of Irish enterprise post-Brexit working across four pillars which are:

- > **Helping Firms to Compete:** We are working across Government to create the best environment for business to grow, export and create jobs. Key elements include ensuring that firms have access to finance, our tax regime and infrastructure spend promote

national competitiveness and the Agencies are appropriately resourced to help business focus on competitiveness at firm level.

- > **Enabling Firms to Innovate:** As part of our strategy to become a Global Innovation Leader, we are targeting R&D funding through our Agencies to support innovation in new products and processes which firms need to compete and grow and to invest in the pipeline of the next generation of innovators through a new postgraduate researcher programme.
- > **Supporting Firms to Trade:** We are supporting firms to start exporting, to grow their exports in existing markets and to diversify into new markets and regions. We will continue to attract overseas investment while working with EU partners to expand the portfolio of Free Trade Agreements.
- > **Negotiating for the Best Possible Outcome:** We are working across government to ensure we get the best outcome possible for business from Brexit negotiations. DBEI is leading a range of Brexit research projects which will provide an extensive evidence base and valuable analysis to inform and guide Ireland's position within the EU-27.

A number of operational measures have been implemented to support achievement of these objectives. For example, structures have been put in place to ensure a coherent approach across the Department and our Agencies and we are building an evidence base to inform policy decisions, relating to both our immediate support for enterprise in the context of Brexit and our longer-term desired outcomes from the negotiations. Furthermore, we are leveraging the expertise and enhancing the capacity of our Agencies to ensure that they are in the best possible position to address the needs of their clients in relation to competitiveness, innovation and trade diversification. This is being achieved through the provision of information, advice, training and other supports. In addition, we are examining possible State supports to help vulnerable firms to adapt, to reinforce enterprise and employment across all sectors and regions.

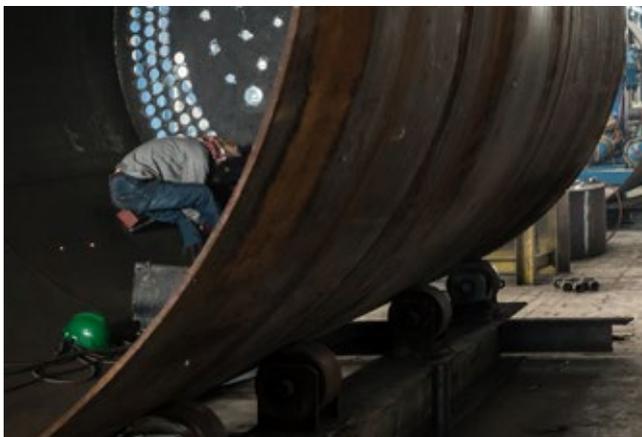
¹ Department of Jobs, Enterprise and Innovation, Statement of Strategy 2016 – 2019, January 2017

1.4 The Future of Europe

Brexit undoubtedly presents challenges for Ireland and the other 26 remaining member states. The Irish Government is confident that we can work together as 27 countries, to deal with all of those challenges. There is a need, however, to consider the future of Europe, and how the EU should evolve to best support our citizens and enterprises.

Membership of the Single Market and Customs Union is a core element of our economic strategy – including in attracting business, both over the decades and more recently. For example, the recent trade deal between the EU and Japan is providing new opportunities for Irish exporters. When Ireland joined the EU, our reliance on the UK for our exports was over 50 per cent, it's now 17 per cent. Our exports to the rest of the EU are currently 35 per cent. We must remember that even after Brexit, the EU will remain a marketplace of over 450 million people.

This isn't an either/or choice between the UK or our membership of the EU. We want the future relationship between the EU and the UK to be as close and positive as possible; and we want an EU that works for all. In this regard, significant effort is being expended across Government, including within this Department, on deepening alliance building inside the EU27 for the post-UK EU. We are advocating to achieve a deepening of the Single Market, and to dismantle further current restrictions, especially in services. This should make it easier for Irish companies to trade within the EU, after Brexit.



1.5 Paper Structure

The remainder of this paper is organised as follows. Chapter 2 outlines the various strands of our research, both completed and currently in train. Chapter 3 provides a brief overview of the national competitiveness and innovation agenda. Chapter 4 takes the output from the research and summarises the broad impacts of Brexit on DBEI policy areas. Chapter 5 then describes the various policy responses taken to date to support businesses, employment, investment, exports and innovation, and the specific mitigating actions required to support firms in addressing and overcoming the inevitable challenges and uncertainties that Brexit presents.

Appendix 1 outlines the new internal structures that have been put in place on the Department to ensure that we have a coherent and coordination response to Brexit. Appendix 2 deals with DBEI's general approach to enterprise policy. Appendix 3 provides a brief overview of our trade priorities for the negotiations.



2

Understanding Brexit: Establishing the Evidence Base

2.1 Introduction

To inform policymakers, develop mitigation strategies, help prepare Ireland's position on our trade priorities and preferred outcome from negotiations, DBEI has already published a number of reports and is currently engaged in a suite of studies. These are elaborated on below.

In addition to and complementing these studies, the Department is engaged in extensive consultation with stakeholders across all sectors of the economy. Such consultation provides direct input to the more formal research studies but also represents a strand of research in itself, facilitating direct engagement between policymakers with those most significantly impacted by Brexit.

While this research is progressing, a series of papers on a range of "separation issues" (i.e. those issues to be resolved as part of phase 1 of negotiations dealing with the UK's exit from the EU) are published on a regular basis by the EU's Taskforce on Article 50 – with input from the Ad Hoc Working Party on Article 50². At the same time, the UK is also publishing its own series of documents – some of which address exit issues and others setting out "future partnership positions".

These documents are reviewed by relevant units within DBEI and by staff based in Brussels, London and Geneva, as appropriate, with views and comments inputted to the Ad Hoc Working Party and Taskforce. Given the complex and cross-cutting nature of many of the documents, interdepartmental coordination is led by the Department of Foreign Affairs and Trade.

This process ensures that DBEI positions are communicated to and impact upon the negotiations, but also help to shape our evolving understanding of just how Brexit may impact upon our economy and enterprise base, and the steps we should take to prepare firms for a post-Brexit world.

2 The working party assists the Council and Coreper (Committee of Permanent Representatives) in all matters related to the UK's withdrawal from the EU. It has a permanent chair and meets in an EU27 format. Ireland is represented on the working party by the Department of Foreign Affairs and Trade.

2.2 DBEI Completed Research

In terms of completed studies, 2 significant pieces of DBEI Brexit-related work have already been published³:

- (i) A project that combines the outputs from a series of structured engagements with companies (of different sizes, across different sectors and across the regions) and a survey of a thousand SME business owners to **Understand the Implications of Brexit for Irish SMEs** was published in May 2017.

The survey indicated that 49 per cent of companies had experienced no impact on their business from Brexit, and a further 15 per cent had experienced minimal impact. However, when asked to look forward over the next 18 months the percentage expecting no Brexit impact drops to 26 per cent, with 17 per cent (1 in 6) expecting a significant impact. The Department is undertaking a follow up survey, which will provide an update on the impact of Brexit and a better picture on SME investment intentions.

- (ii) A study analysing the **Potential Impact of WTO Tariffs on Cross-Border Trade** has been published in conjunction with InterTrade Ireland. This study provides an understanding of the impact of different trade and tariff regimes which might be imposed following Brexit, together with data on the extent and concentration of cross border trade, including information on this trade by product and firm types, and barriers to exporting, all in the context of Brexit.

The analysis uses data on WTO baseline tariff rates, sectoral price elasticities and non-tariff barrier cost measures to generate estimates on the range of possible impacts for the type of products currently being traded. The study considers three scenarios - WTO tariffs, WTO tariffs plus non-tariff barrier estimates and a scenario including a 10 per cent change in the exchange rate. The scenarios presented are the worst-case scenario.

DBEI has funded this project, while InterTrade Ireland has lead responsibility for managing the work being undertaken by the ESRI. Phase 1 of this research has been published. Phase 2 has now commenced and will examine the concentration of North-South trade, how the structure changed over time, the patterns of intermediate inputs and final products, the frequency with which new products are introduced, and how product composition compares to other markets. The likely impact of Brexit on these factors will be assessed. This work should be complete by year end and is being overseen by a Steering Group comprising representatives of ESRI, InterTrade Ireland, the Department for the Economy in Northern Ireland and DBEI.

3 DBEI also provides the secretariat to the National Competitiveness Council. The Council recently published a report "Benchmarking Competitiveness: Ireland and the UK" which provides a statistical assessment of Ireland's current competitiveness performance vis-à-vis the UK. Overall, the NCC found that in comparison to the UK, Ireland performs well in international competitiveness rankings with respect to: ease of starting a business; productivity; quality of institutions; quality of higher education and training; and the efficiency of product markets. Relative to Ireland, the UK has higher rankings with respect to: infrastructure quality; financial market development; labour market efficiency; technological development; innovation; and business sophistication.

2.3 DBEI Current Research

In terms of current research commitments, in 2017 and early 2018 DBEI will complete:

(i) A major study examining the **Strategic Implications arising from EU-UK Trading Patterns** is underway. This study will provide an evidence base on key trade and investment questions to inform Ireland's position as part of the wider negotiation on the UK's future relationship with the EU. Using a computable general equilibrium model to quantify new barriers to trade in goods and services which might emerge as a result of Brexit, this study will:

- > Quantify impact of seven possible Brexit outcomes scenarios on trade and investment – the impact of these outcomes on metrics such as GDP and employment will be considered, and analysis of both medium and long term impacts will be examined; and
- > Provide in-depth analysis of key sectors. The study will decompose the potential trade and investment impacts for key sectors and in each scenario identify which elements contribute to the results (i.e. tariffs, non-tariff barriers, transit costs, other trade costs), leading to sector-by-sector understanding of solutions.

In summary, this study will provide an evidence base on key trade and investment questions to inform Ireland's position as part of the wider negotiation on the UK's future relationship with the EU and will inform the development of sectoral mitigation measures.

(ii) A study examining the **Sectoral implications arising from Brexit** focused on those sectors most exposed to the UK is underway and is due to be completed by end 2017.

This qualitative research examines the implications at firm-level for Ireland's most exposed enterprise sectors of the UK being outside of the European Single Market and Customs Union. A pilot exercise to assess the impact on three sectors (food/drink, wholesale/retail, and computer consultancy) was completed, and based on the results from the pilot study, the project has been extended to another 15 sectors. The study is expected to be completed by end 2017.

(iii) A study examining the **Import Content of Irish Exports: Implications of Brexit for Inputs and Competitiveness** and the extent to which Irish firms source intermediate inputs from the UK has just commenced. This research will provide empirical evidence on the import content of Irish firms' exports, how firms may be exposed to changes in the trading environment after Brexit and the impact of Brexit on inputs, and competitiveness.

This analysis is based on the detailed firm-level trade transactions data on imports and exports at the product level. As services trade data is not available at the same level of detail, a sector-level approach on the sourcing of services inputs is planned, using information from input-output tables.

- (iv) A study examining the **Skills needs arising from the Potential Trading and Regulatory Implications of Brexit** has commenced. This research, undertaken by the Expert Group on Future Skills Needs (EGFSN), will seek to establish the readiness of the Irish enterprise base to navigate the potentially more restrictive and complex trade and regulatory environment post-Brexit, by way of access to and availability of relevant skillsets.

This study is partly an update on two previous EGFSN reports on skills for enterprise to trade internationally and those in the freight transport, distribution and logistics sector. This piece of contingency analysis will seek to establish whether the current associated skills supply and provision is fit for purpose in offsetting the potential trading and regulatory challenges of Brexit. Where required, it will establish and propose skills-related actions to boost this capacity in the Irish enterprise base.

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- (v) A study by the Competition and Consumer Protection Commission (CCPC) in conjunction with the ESRI analysing the **Financial Impact of Brexit on Consumers in Ireland** is also underway. This research project will identify the potential financial impacts of Brexit on Irish consumers arising from the potential for price increases on goods imported from the UK, under a number of potential post-Brexit trade scenarios.

The project will consider a range of specific post Brexit trade scenarios and will include detailed modelling of the price implications of each of the scenarios assessed for a variety of consumer product categories taken from the most recent household budget survey. The project will also take account of various household types by income.

A range of other impacts will also be considered including: the potential implications of a sterling depreciation; whether imported goods were produced in the UK or trans-shipped through UK, and the potential for new distribution channels for the latter; the impact of intermediate good import costs on the price of domestically produced consumer goods and the impact that import price increases may have on demand for a range of consumer product categories. It is expected that this will be completed by year end.

2.4 DBEI Stakeholder Consultation

Engagement with the Department's stakeholders is crucial to inform our approach and policy positions on Brexit. Dialogue happens through existing channels of communication with stakeholders, including for example, the Action Plan for Jobs National & Regional Implementation Groups, the Retail Consultation Forum and the Horizon 2020 High Level Group. As part of the development of the Action Plan for Jobs 2018 – which will have a significant focus on Brexit, extensive consultation is planned with the social partners and a wide range of stakeholders.

A number of additional Brexit specific channels for consultation have also been established. To facilitate and encourage regular and comprehensive dialogue with enterprise, the Department established an Enterprise Forum on Brexit and Global Challenges. Membership includes 13 representatives from enterprise groups and the Forum is chaired by the Tánaiste, with meetings held every 6-8 weeks. This Forum provides an opportunity for the Department to share emerging research and policy approaches with the enterprise sector and to receive feedback on proposals. It also gives enterprise a platform to share their research and feedback from companies with the Department and to raise issues of concern, to highlight opportunities, and to suggest policy responses.

In addition, the Department has established a Trade & Investment Working Group. Membership includes Assistant Secretaries from the Department of An Taoiseach, the Department of Finance, the Department of Public Expenditure and Reform, the Department Foreign Affairs and Trade, the Department Agriculture, Food and the Marine, the Department of Transport, Tourism and Sport, and the Revenue Commissioners. This Group provides a forum for discussion of trade and investment policy implications arising from Brexit, and an opportunity to consider potential Irish positions on key policy questions. This Group is part of a much wider network of interdepartmental groups, led by Department of Foreign Affairs and Trade.

The Department has also held two large external stakeholder engagement events ("Sectoral Stakeholder Dialogues") to capture inputs from a range of participants. The outputs from these events held in Carrick-on-Shannon (in January and addressing the full range of enterprise issues), and Dublin (in July, and considering the skills implications of Brexit) fed directly into the Government's All Island Civic Dialogue process. These events will continue throughout 2017 and 2018.

Furthermore, since the UK vote to leave the EU, Ministers and officials have also been engaged in extensive bilateral engagement with EU counterparts. There has also been engagement between the Department/Ministers and EU Commissioners, UK Ministers and Ministerial counterparts in other Member States. The Tánaiste also met the Commission's Chief Brexit Negotiator, Mr Michel Barnier.

The Tánaiste, Minister Breen and Minister Halligan are supporting EI and IDA in their effort on the ground by leading Trade and Investment Missions abroad, using every opportunity to support trade diversification and to reinforce Ireland's commitment to the EU.

4 Reports on both events have been published and are available at www.dbei.gov.ie

Box 1:

Company Preparedness for Brexit

Before moving on to consider how Brexit is impacting upon the work of the Department, it is useful to consider what all this research has taught us about the preparations of companies to deal with the consequences of the UK leaving the EU.

The findings from the SME business owners (published in May and referenced above) highlight a worrying trend in relation to the overall levels of preparedness and planning by business in this context. These findings reflect other available research.

The latest quarterly (Q2, April - June 2017) InterTradeIreland Business Monitor Report shows that 34 per cent of exporters state that they have already experienced a negative impact due to Brexit. However, only 3 per cent of these exporters have a plan in place to deal with the potential outcomes of Brexit.

Enterprise Ireland surveyed 600 businesses to coincide with its International Markets Week event in early September. This survey found that almost two-thirds of Irish export companies have said they are unprepared for Brexit, and have not put any counter measures in place over the last six months.

These findings highlight the importance of the communications role of DBEI and its Agencies, to maximise understanding about Brexit, and to ensure that as many companies as possible take the necessary action to protect their businesses from the impact of Brexit. Of course, many other actors across both the public and private sectors have vital roles in this regard also.



Almost two-thirds of Irish export companies have said they are unprepared for Brexit and have not put any counter measures in place over the last six months.

September 2017 - Enterprise Ireland Survey

3

Supporting National Competitiveness, Productivity and Innovation

3.1 Introduction

To mitigate against the negative impacts of Brexit and to ensure that Ireland is best place to adapt to the post-Brexit trading reality, policies that enhance our competitiveness and innovation capacity are essential. Such policies are required at the national level and at the firm level. This chapter focuses on national, macro level competitiveness and innovation, while Chapter 5 will primarily address the interventions required to support firms more directly.

3.2 Working to Address Ireland's Competitiveness Challenges

National competitiveness provides Ireland's people with the opportunity to improve their living standards and quality of life. Improving living standards depends on, amongst other things, raising incomes and providing employment. To raise incomes and grow employment, productivity gains are necessary but in an economy with a small domestic market, this requires a healthy exporting sector to achieve economies of scale necessary for productivity gains. For a vibrant exporting sector, Ireland must maintain its national competitiveness.

Competitiveness matters for all enterprises, regardless of size, ownership or sector. A continuous flow of new start-ups that can survive and thrive strengthens the national enterprise base not only through the creation of new businesses, products and services but also by stimulating improved performance in existing businesses. Competitiveness is also essential for Irish entrepreneurs and SMEs whose main focus is on the domestic market, for instance, cost competitiveness, management skills, use of ICT all impact upon the ability of such enterprises to compete. Ultimately, competitiveness is part of the DNA of sustainable jobs and growth.



“Competitiveness refers to the ability of enterprises to compete in international markets”. Competitiveness is translated into sustainable growth and improved living standards for all. National competitiveness is a broad concept that encompasses a diverse range of factors and policy inputs including education, entrepreneurship and innovation, Ireland’s economic and technological infrastructure, regulation and taxation.”

National Competitiveness Council

Ireland’s improved international competitiveness performance over the period 2011-2016 has been central to the recovery in employment and economic growth. While some of this reflects the significant policy reforms delivered through the Action Plan for Jobs, and a range of other initiatives, external factors – low energy prices and (up until recently) a weak euro – have provided a boost, particularly to Ireland’s international cost competitiveness. As we have seen with the depreciation of sterling, these factors are outside of domestic policy control and can be quickly reversed, eroding the gains made to date.

As noted, competitiveness encompasses a wide range of factors, and thus, policies to influence competitiveness impact upon virtually all Government Departments. From a DBEI perspective, many of the levers used to influence Ireland’s international performance lie beyond the remit of this department. Where this occurs, DBEI works to influence the competitiveness agenda through various forums (including the relevant Senior Officials Groups and Cabinet Committees), driving reforms, and encouraging other Departments and Agencies to take the required actions to improve Ireland’s competitive environment.

The Action Plan for Jobs has been an essential tool from a competitiveness perspective and has been successful in driving coordinated actions to improve job creation, broaden the export and enterprise base, and enhance productivity and competitiveness. Indeed, the Action Plan for Jobs explicitly recognises the fundamental link between competitiveness, the ability of enterprises to trade successfully, and job creation. It is a key mechanism to drive competitiveness in all areas of economic activity. The development of APJ 2018 provides further opportunity to maintain this focus on competitiveness in the context of Brexit and more broadly.

Whereas the Action Plan for Jobs focuses primarily on short-term, tangible actions (i.e. actions that can commence, or be delivered upon, over the next 12 months), other tools provide the necessary medium-term focus.

The ongoing Review of Enterprise 2025 will help shape and adapt our enterprise policy to deal with the fallout from Brexit and other global challenges.

The work of the National Competitiveness Council (NCC), supported by the DBEI secretariat is crucial in shaping our understanding of competitiveness and developing subsequent policy responses. The NCC reports to the Taoiseach and the Government, through the Minister for Business, Enterprise and Innovation, on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

In the NCC's recent published reports, several common themes emerge:

- > A number of upward domestic cost pressures are now emerging, particularly in relation to labour, property and business services. Ireland remains an expensive location in which to do business, relative to some of our key competitors.
- > Infrastructure bottlenecks and skills mismatches are again immediate challenges and a series of labour market challenges persist.
- > Increasing productivity across all sectors and occupations, particularly in the indigenous economy remains a significant issue.
- > Our export base is relatively narrow, increasing the risk from external shocks. Trade diversification is essential to mitigate against this risk.
- > Issues relating to debt levels and company access to finance persist.
- > There remains a need to improve the ease of doing business – actions in this regard offer significant potential to enhance our competitiveness: actions to improve administrative processes and practices are generally within the control of public bodies and do not necessarily require investment.

3.3 Innovation and Productivity

Productivity and innovation are intricately interwoven concepts.

Productivity growth enables firms based in Ireland to compete successfully in international markets by facilitating output to be produced in a more efficient and effective manner. In the long-run, productivity growth is the primary determinant of improvements in national living standards relative to other countries. Productivity performance, in turn is closely interwoven with the concept of competitiveness discussed above, and with innovation performance.

In recent years, productivity growth has slowed across the OECD. The slowdown in growth has been attributed to a mix of cyclical factors such as weak global demand and declining capital investment, as well as structural factors such as inefficient markets, low levels of innovation and skills mismatches.

Ireland's overall productivity performance, however, is relatively strong – levels and growth rates tend to be above the Euro-area average and levels seen in the UK. However, Ireland's performance is greatly influenced by shifts in the composition of employment and the influence of Foreign Direct Investment on output. Furthermore, a narrow base of enterprises in high value added sectors (particularly in Pharma and ICT) is responsible for a disproportionate share of this growth. This phenomenon disguises a range of underperforming sectors and exaggerates Ireland's productivity level. The narrow base of sectors driving productivity performance leaves Ireland vulnerable to shocks and serves to highlight the scope to enhance productivity at sector and firm levels.

In terms of innovation, four types of innovation are recognised: product innovation, process innovation, marketing innovation and organisational innovation.

Increasing levels of innovative activity amongst Irish based firms has played a key role in securing Ireland's economic recovery to date. Innovation plays a vital role in driving productivity growth and fostering competitiveness in a global world, where knowledge and innovation are critical factors for advanced economies.

Innovation contributes significantly to employment, exports and investment, to the competitiveness of the indigenous enterprise base, to embedding the FDI base in Ireland, and to the creation and application of new knowledge and technology transfer.

Innovation 2020, our national strategy for research and development, science and technology, sets a vision for Ireland to become a Global Innovation Leader, creating an internationally competitive research and innovation system, driving a sustainable economy and, ultimately creating a better society. We have already made significant progress in developing our national innovation system. We have successfully built up research capacity and now have a significant reputation for research excellence along with an increasing cohort of enterprises that are RDI and innovation active.

Together with Science Foundation Ireland, Enterprise Ireland and IDA Ireland, DBEI will drive and support greater engagement in RDI by both Irish and foreign owned enterprises and by both SMEs and large scale enterprises. We will respond to the changing needs of the enterprise sector and will tailor our supports to meet these needs.

3.4 A Medium-Term Agenda

While growth prospects for the Irish economy are strong, Ireland must continue to deliver aggressively the structural reforms required to support competitiveness, innovation, and ultimately growth and jobs. As well as addressing the immediate, short-term challenges which confront us, we must also look towards the medium-term and ensure that the foundations for sustainable competitiveness are in place. In the medium-term, productivity improvements and innovation must be the primary drivers of Irish competitiveness.

Ultimately, policies to protect our international competitiveness must remain a priority for policy makers; only by maintaining and enhancing Ireland's international competitiveness can we build an economy sufficiently innovative, robust and adaptable to withstand whatever the turbulent global economic environment throws at us. Only a renewed commitment to improving our competitiveness will put us in a position to take advantage of whatever opportunities emerge as a result of the changed European dynamic.



4

Brexit impacts across DBEI Policy Areas

4.1 Introduction

Brexit will have significant impacts across practically all policy and operational areas of the Department, our offices, and our family of Agencies. It will affect individual companies, sectors, and the macroeconomy. Brexit also gives rise to short, medium and long-term challenges that must be addressed.

4.2 International Trade

Significant risks exist in relation to starting and growing Irish companies, growing our trading footprint and job creation across the regions of Ireland. Brexit is likely to represent a structural shift in the UK's trading relations and key strategic responses are required to enhance entrepreneurship, competitiveness and innovation performance, and to accelerate export diversification.

At the company level, the immediate impact on companies and jobs comes from the uncertainties created by currency fluctuations, UK customer confidence, and the performance of the UK economy. Micro-enterprises and start-ups with cross-border trade relationships are particularly vulnerable to the effects of Brexit, and the impacts will be more keenly felt in the border counties.

Box 2:

Focus on Trade, the Enterprise Base & the Indigenous Enterprise Sector

Ireland is a trading nation and the UK is one of our most important trading partners, accounting for about 17 per cent of our exports; the UK accounted for just under €15.5 billion, or 14 per cent, of Ireland's goods exports in 2015, and €23.5 billion, or 19 per cent, of Ireland's services exports in 2015. Of course, this relationship works in both directions; Ireland imports goods worth €18 billion and services worth €11 billion from the UK per annum⁵.

These headline figures, however, mask significant exposures and dependencies at sectoral level. A number of industry subsectors and major employers send over 40 per cent of their exports to the UK. Various analyses have been conducted by the ESRI, Department of Finance and Enterprise Ireland in relation to the sectors most exposed to the UK market, and to the risks posed by Brexit.

Sectors deemed to be at risk include those with the largest overall share of total Irish exports to the UK and those sectors with the highest shares of exports to the UK as a percentage of their total exports. Combining the size exposure and proportional exposure of sectors, the Department of Finance has created a composite "exposure index"; this in-depth sectoral analysis identified the food and beverage, traditional manufacturing, materials manufacturing, pharmachem, and printing as the five most exposed manufacturing sectors.

On the services side, the sectors which show the highest overall exposure are transport, insurance/financial services and computer services. While tourism does not exhibit a high exposure under this measure, approximately 40 per cent of trips to Ireland are undertaken by UK residents and this sector is sensitive to exchange rate changes.

Focusing more on indigenous firms, and based on an analysis of Enterprise Ireland's client base, significant potential negative impacts were identified for firms operating in consumer food, primary meats, electronics and paper, print and packaging and construction and timber sectors. The 1,537 Enterprise Ireland (EI) client companies recording exports to the UK employ 105,000 full time employees across all regions of Ireland. This represents more than half of total employment of EI clients.

Notably, there is a significant threat to jobs in the regions. Enterprise Ireland clients employed 201,108 people in 2016 - 42.2 per cent of this employment was outside the five counties which are home to the five urban centres (Dublin, Limerick, Galway, Waterford and Cork). The Construction Products, Construction Services, Engineering, Agriculture Machinery, Timber, Furniture and Food are all sectors that have a high level of sales to the UK and are very regionally dispersed sectors. Jobs lost here would be a challenge to replace.

Micro-enterprises are also exposed to the effects of Brexit, and perhaps even more so because of their small size. These companies will have less capacity and capability in-house to absorb and mitigate potential adverse impacts arising, for example, to explore and exploit alternative markets overseas. Micro-enterprises and start-ups with cross-border trade relationships are particularly vulnerable, and the impacts will probably be more keenly felt in the border counties than anywhere else.

A recently published study, which was funded by DBEI and undertaken by the ESRI on behalf of InterTrade Ireland, highlights the potential impact of Brexit on cross-border, north-south trade between the Republic of Ireland and Northern Ireland. South to North trade in goods was valued at €1.65 billion in 2016 (down from €1.73 billion in 2015) and north to south trade was €1.05 billion (down slightly from €1.108 billion in 2014)⁶. Again, a number of sectors are particularly exposed to Brexit-related risks (for example, substantial cross-border activity occurs in relation to milk production). Approximately €1 billion of Enterprise Ireland client exports from the Republic of Ireland go to Northern Ireland every year.

In the absence of a comprehensive trade and investment deal a 'Hard Brexit' would pose significant challenges for exporters and investors, creating additional barriers to trade. Enterprise Ireland estimates that if clients collectively lost €1bn of exports, this would result in over 5,000 jobs losses across all regions of Ireland. The ESRI has suggested that a 20 per cent drop in trade is possible because of Brexit. Applied to EI clients that is equivalent to a reduction in exports of €1.5 billion.

5 Department of Finance, UK EU Exit – An Exposure Analysis of Sectors of the Irish Economy, March 2017

6 This study analyses a "worst-case scenario" whereby WTO tariffs are imposed in the absence of a comprehensive trade agreement being agreed between the EU and the UK following Brexit. It examines the potential impact in such a scenario of possible non-tariff barriers on goods trade, as well as currency exchange rate fluctuations. Its findings show that the level of cross-border goods trade would likely be significantly reduced in all cases. The report does not address the potential impact on trade in services. See InterTrade Ireland, Potential Impacts of WTO Tariffs on Cross-Border Trade, June 2017

Micro-enterprises and start-ups with cross-border trade relationships are particularly vulnerable to the effects of Brexit

Over the coming 12 to 24 months the focus will be on sustaining and growing UK market export opportunities and penetrating new markets. Longer-term, the strategy is to support businesses that will be more resilient in the face of global economic challenges by ensuring that they have the necessary management, financial, innovation and market capabilities.

Of course, strategies and actions that enhance firm level performance will improve our international competitiveness, and will provide an opportunity for companies to expand and grow. Equally, changing trade patterns will also provide investment opportunities (see section on FDI, below). DBEI will continue to provide policy direction and advice in relation to Ireland's position in negotiations between the EU and the UK on the trade deal and on other areas of policy for which DBEI has responsibility. Key issues in this regard include the need for transitional arrangements and the issue of transit.

4.3 INTERREG Funding

Impacts may also be pronounced in relation to INTERREG funding. DBEI is the 'Accountable Department' (i.e. co-funder) for this initiative which makes €71 million available for North-South Research and Innovation initiatives. This funding is aimed at both helping SMEs and at funding a range of higher-level research projects involving colleges including the three Institutes of Technology in the border region, which will generate some downstream benefits for companies. There is some uncertainty about how effectively the Programme will run to its anticipated completion date of 2022. In addition, while Ireland has benefitted from several strands of INTERREG over many years, there obviously cannot be a new Programme after 2022.

4.4 Regulation

The Department is aware that there is potential for regulatory divergence between the UK and the EU with impacts on Ireland – a number of relevant policy areas fall within DBEI's remit in this regard. These are areas where impacts may emerge depending on the extent to which the UK decides to align with, go beyond, or diverge from existing EU regulations and legislation. The following areas have been identified at this stage, and the Department will monitor developments in the UK to ensure that Ireland is in a position to respond appropriately and minimise adverse impacts:

- **Company law:** Given our shared common law tradition, there have been mutual interests for Ireland and the UK when negotiating EU law and close cooperation has developed in relation to company law.
- **Audit and Accountancy:** Specific Brexit impacts may arise in relation to accounting standards and financial reporting. As an example, the work of the Irish Auditing and Accounting Supervisory Authority (IAASA) will likely be affected by Brexit, and in particular, there is a risk of regulatory divergence⁷. This may most likely be seen in relation to the audit profession, and the current interconnection of the Irish and UK regulatory structures. The Board of IAASA have identified Brexit as a key challenge for IAASA in the short to medium-term. Regarding the audit profession, a number of the Recognised Accountancy Bodies (RABs) are located in what will become a non-EU jurisdiction. This may have implications for current common standards, education in the sector, mutual recognition and practicing rights for members in both jurisdictions⁸. Currently, IAASA has a strong working relationship across a range of areas with its UK counterpart, the Financial Reporting Council (FRC).

7 IAASA is a regulatory body, having responsibility for overseeing the performance of functions relating to auditors carried out by 6 recognised accounting bodies within Ireland, England, Scotland and Wales and for supervising 9 accountancy bodies under its remit, with membership across Ireland, England Scotland and Wales.

8 See IAASA, Information Note: Consideration of the Impact of Brexit for issuers' Half yearly financial reports, July 2016



- > Competition law: It is not clear how mergers involving UK and EU firms will be handled as there may be a requirement for dual notifications to both UK and relevant EU authorities. This could see lengthier timeframes due to the need for the two authorities to agree on remedies, etc. and would also impose a greater financial burden on businesses. Equally, it is not known at this stage how cross-border anti-trust investigations (involving the UK and the EU) will be impacted.
- > Consumer protection law: Brexit may impact consumer protection law, including product safety legislation and market surveillance activities. In addition, the issue of consumer rights for goods etc. bought in the UK post-Brexit has yet to be clarified.
- > Intellectual property: Brexit will create uncertainty in relation to the scope of protection in the UK of certain intellectual property rights and to the treatment of applications for certain rights and to the exhaustion of intellectual property rights conferred.

The UK is signed up to EU agreements in the context of Intellectual Property specifically for trademarks and designs that currently enjoy EU wide property protection. Depending on the exit agreement negotiated, it may be that these EU-wide property rights will no longer cover the geographical territory of the UK. This would affect IP users' access to a pan EU Trade Mark and EU Design system and potentially require, for example, Irish trade mark and design rights holders to apply for separate IP protection in the UK if this market is of particular interest. The EU27 will be seeking to ensure that the Withdrawal Agreement safeguards the protections, rights and procedures currently enjoyed by EU27 holders of intellectual property rights.

- > Unified Patent Court: Brexit is likely to delay the coming-into-force of an international agreement on a Unified Patent Court. To come into effect, the Agreement must be ratified by a minimum of 13 participating States, and must include France, Germany and the UK. Neither the UK nor Germany have completed the ratification process and there is uncertainty as to the likely timeline for completion of the process in both countries.
- > Market Surveillance: Market surveillance authorities are designated under Irish legislation to ensure that products being made available on the Irish market meet the requirements of the relevant EU Directives/Regulations and the products do not endanger health, safety or any other public interest specified by the relevant legal instrument. Product safety is thereby achieved by ensuring that such products meet essential health and safety requirements. Responsibility for market surveillance of products is decided with reference to the area of responsibility covered by the relevant bodies' remit (for example, the Competition and Consumer Protection Commission for toys, Health and Safety Authority for chemicals or machinery; Marine Service Office of the Department of Transport, Tourism and Sport for marine pleasure craft). In a post-Brexit situation products imported from the UK may require an enhanced level of market surveillance.

- Rules on product standards: The National Standards Authority of Ireland adopts both national Irish and EU Standards - as does the British Standards Institute (BSI). Such standards provide agreed criteria designed to ensure products and services meet minimum thresholds of quality, performance, design, safety and environmental impact.

In a post-UK exit scenario, BSI could in theory adopt only UK Standards, which could be less or more stringent than some EU Standards potentially creating uncertainty and/or administrative burdens for exporters into the UK as well as for consumers, arguably also potentially creating a competitive advantage for UK producers or service providers.

UK Notified Bodies under Technical Harmonisation Directives wishing to retain current status must be designated as a Notified Body by a notifying authority in a Member State⁹. DBEI is a notifying authority for 15 Technical Harmonisation Directives. Any Notified Body must obtain accreditation from the Irish National Accreditation Body (INAB). A large number of UK Notified Bodies have shown an interest in gaining Notified Body Status in Ireland which may have resource implications for INAB.

Post-Brexit, Irish companies will face changes in how their chemicals supply chains operate. This will affect not only the selling of chemicals and chemical products into the UK, but also the sourcing of many chemicals as raw materials to be used for example in pharmaceutical, medical device and ICT manufacturing. Under the REACH regulation, a company status may change from being a downstream user to that of being an importer if they continue to source chemicals from the UK (i.e. outside the EU). This change may result in higher obligations on the Irish companies, as well as increased costs to consumers and Irish users of these products. The impacts on all Irish businesses that use chemicals post-Brexit will likely lead to increased queries to the national REACH helpdesk run by the Health and Safety Authority.

Related to the question of regulatory divergence is the potential for confusion and conflict in determining which country's judicial system has jurisdiction over cross-border commercial disputes including multi-jurisdictional insolvency. The current system of determining jurisdiction over legal disputes and for ensuring that Irish court judgements are recognised and enforced in the UK (and vice versa) is contained in a range of EU instruments, all of which have the CJEU as the final arbiter.

4.5 State Aid

State Aid relates to forms of public assistance, using taxpayer funded resources, given to undertakings (i.e. companies) on a discretionary basis, with the potential to distort competition and affect trade between Member States of the European Union. The underpinning justification behind EU State Aid rules is that the grant of subsidies to firms of one Member State, in a single market or free trade area, will often distort competition to the detriment of competing firms from other participating States. However, various categories of schemes are approved because of their positive effects (e.g. investment to stimulate regional development or programmes to promote training in industry).

Whether EU State Aid rules or an equivalent will apply in some form to the UK post-Brexit will depend on the terms of the agreement on the future relations between the UK and the EU, and on the commitments which the UK might enter into at the World Trade Organisation. However, the very fact that the UK may have discretion to adjust the rules will inevitably cause uncertainty¹⁰.

9 A notified body is an organisation designated by an EU country to assess the conformity of certain products before being placed on the market. These bodies carry out tasks related to conformity assessment procedures set out in the applicable legislation, when a third party is required.

10 It is also important to be aware that, even outside any trade agreement with the EU containing State Aid rules, the UK will, in relation to goods, still be bound by WTO anti-subsidy rules. While there is considerable overlap between the WTO concept of subsidy and the concept of State Aid the non-application of services in the WTO regime sets them apart.

4.6 Common Travel Area

The Common Travel Area (CTA) is a long-standing arrangement between Ireland and the United Kingdom which enables Irish and UK citizens to travel and reside in either jurisdiction without restriction and provides for associated rights and entitlements in both jurisdictions. UK citizens, therefore, do not require work permits to work in Ireland and this will continue to be the case for Irish citizens residing and working in the UK. The Common Travel Area predates membership of the EU by both Ireland and the UK and is therefore not dependent on it. The CTA is recognised in EU law and the ongoing Brexit negotiations are aimed at confirming that this bilateral arrangement is in conformity with EU and Ireland's EU obligations.

Post-Brexit, the potential for non-EU and non-EEA nationals who might look to Ireland rather than the UK could place additional demands on the employment permit regime. This too presents an opportunity for Ireland, enhancing our attractiveness to a mobile, highly skilled pool of workers, both from within and without the EU/EEA. The challenge is to ensure that our offering to attract such talent remains competitive.

4.7 Future of the EU

The loss of the UK as a strong like-minded ally and fellow common law country in EU negotiations also represents a risk for Ireland and other like-minded countries more generally. The strength of convergence with the UK on policy approach varies across different policy areas but the UK is considered a strong ally across many policy fields within the remit of DBEI including trade and the completion of the Single market. In the regulatory arena, the role of the judiciary in common law jurisdictions, such as Ireland, the UK, the US and Canada, facilitates a less prescriptive approach to rule making through the development of case law and the doctrine of precedent.

There will be challenges ahead to ensure future EU initiatives do not develop in a way that would require Ireland adopt the more prescriptive system of rule-making that is often a feature of civil law jurisdictions, with the ensuing potential for increased costs for business. Efforts, co-ordinated by the Department of Foreign Affairs and Trade, are already under way to build stronger alliances with like-minded Member States to counteract the loss of the UK voice in negotiations at EU level across the broad range of policy areas, including those within the remit of DBEI.





4.8 FDI Opportunities

On the other hand, Brexit presents opportunities for Ireland, particularly in relation to Foreign Direct Investment. Brexit has been a significant focus for IDA Ireland with increased resources, new marketing strategies and events taking place in order to highlight Ireland's suitability for companies looking to maintain EU market access into the future.

IDA Ireland sees Brexit opportunities in relation to: existing IDA clients with a presence in Ireland who also have a presence in the UK; overseas clients (US, European & Asian) who have a presence in the UK but not in Ireland; UK companies operating in the UK who now need certain access to the European market; and international clients without a presence in Europe seeking a European home. The size of this opportunity will depend on the eventual outcome of the EU-UK negotiations, and Brexit will also present challenges to Ireland in winning FDI.

Ireland's strengths in attracting Brexit-related investment include our continued access to the EU market, political, economic and regulatory stability relative to many competitor destinations, a voice in EU policy and regulatory fora, consistent public policy regarding FDI, and close proximity to and connections with the UK.

Particular sectors from which Ireland may benefit from increased Brexit-related FDI include international financial services, technology, consumer and content business and life-sciences. It should be emphasised, however, that competition from other European and global jurisdictions to attract such FDI remains intense.

Companies in the financial services sector have the most immediate requirements relating to Brexit, and as a result Ireland has already won, despite serious competition, investments from leading companies including JP Morgan, Barclays and XL Group.

In the bio-pharmaceutical sector, investment decisions will also have to factor in Brexit due to issues relating to EU market access, regulation and supply chain logistics. There is a developing opportunity for Ireland around the test, release and launch of products for the EU market.

In technology and business services, there is also an opportunity to win Brexit-related investment, particularly in the context of the European Data Protection Regulation (GDPR) coming into force in May 2018. The new regulation will allow companies with operations across multiple EU countries to deal with a single data regulator in the Member State in which their main establishment is located. Ireland is already the primary EU data regulator for many data-rich internet companies and, as one of only two English speaking Member States in the UK's absence, is well placed to attract more of these companies to invest in Ireland.

The IDA continues to focus on converting interest shown from companies in these areas into investments on the ground in Ireland, and is making steady progress on winning investments. The Agency is confident that we will see more Brexit-related investments over the coming months. The climate for investment will also be impacted by the shape of the final deal determining the relationship between the EU and UK, and the anticipated negative impact Brexit will have on the international commercial climate could also affect investor confidence.

4.9 Research Opportunities

Opportunities for Ireland may also arise in the area of research and innovation as a result of Brexit. Ireland has a broad spread of international research collaborations, particularly through the EU Framework Programme for Research & Innovation, Horizon 2020. While the UK is an important partner for Ireland in Horizon 2020 (with 1,373 collaborative links¹¹), only 11.3 per cent of our international collaborative links are with the UK¹². Ireland has strong partnerships with other Member States, particularly, Germany (1,451), Spain (1,291) and France (1,054). Furthermore, only 9 per cent of the funding Ireland has won has come via UK-led projects. Therefore, we are well diversified in terms of international collaboration through Horizon 2020. While there are risks to losing the UK as a partner in future Framework Programmes for Research & Innovation there are also opportunities for Ireland to build further bilateral collaboration with the UK outside the EU, and to further diversify our collaborations with other EU Member States in Horizon 2020. SFI has a number of programmes in place to deliver on this strategy.

Brexit will enhance the value of Ireland's existing bilateral partnership agreements with key UK research funders. Specifically, SFI has agreements with the Biotechnology and Biological Sciences Research Council; the Engineering and Physical Sciences Research Council; the Royal Society; the Wellcome Trust (in association with the Health Research Board); and the Department of the Economy (Northern Ireland). SFI has identified a number of new Ireland-UK opportunities which could enhance scientific research in Ireland by strengthening Ireland's relationship with the UK.

In addition, SFI and the Health Research Board are partners in the US-Ireland R&D Partnership. The partnership involves funding agencies across three jurisdictions: US, Ireland and Northern Ireland. The US partner is the National Institutes of Health and the Northern Ireland partner is the Health & Social Care R&D Division.

Ireland and the UK are members of a number of leading International Research Organisations, including the European Space Agency; the European Molecular Biology Laboratory; CECAM¹³; Cooperation on Science and Technology (COST); the European infrastructure for Life Sciences data and information (ELIXIR); and the International LOFAR Telescope. These organisations are independent of the EU and will also facilitate on-going collaboration post-Brexit¹⁴.

As one of only two English speaking countries in the EU27, Ireland will be well positioned to attract MSCA fellows from other member states¹⁵. Ireland is also well placed to act as a bridge between the UK, the US and EU research as part of the "Open to the World" dimension of FP9.

11 The Commission defines collaborative links as follows: a project with 2 Irish participants and 3 German participants gives rise to 6 collaborative links.

12 Data is based on European Commission (eCORDA) to end September 2017.

13 The Centre Européen de Calcul Atomique et Moléculaire - an organization devoted to the promotion of fundamental research on advanced computational methods and to their application to important problems in frontier areas of science and technology.

14 Ireland will join the European Southern Observatory in 2018. The UK is also a member of this IRO.

15 The MSCA – Marie Skłodowska-Curie Actions is a mobility programme to support the training of young researchers provide grants for all stages of researchers' careers - be they doctoral candidates or highly experienced researchers - and encourage transnational, intersectoral and interdisciplinary mobility. The MSCA enable research-focused organisations (universities, research centres, and companies) to host talented foreign researchers and to create strategic partnerships with leading institutions worldwide.

5

DBEI Brexit Response

5.1 Introduction

In advance of the UK referendum, the Department conducted a contingency risk assessment of the potential impacts of Brexit across policy areas of the Department. We have refined our analysis post-referendum and have been working with our enterprise agencies to put in place actions to mitigate risks and maximize opportunities.

This chapter highlights the actions taken to date, and considers areas for future action designed to mitigate the impact of Brexit on Irish firms, both indigenous and foreign-owned, internationally and domestically trading, and large and small.

Action Plan for Jobs

The Action Plan for Jobs (APJ) has been one of the Government's key instruments to support job creation and drive reform across the Government system. APJ 2017 provided the first opportunity to set out a whole-of-Government response to the UK's decision to leave the EU: 20 Brexit specific actions were identified to support market diversification, competitiveness and innovation. The clear majority of these were addressed to the enterprise agencies under the remit of this Department. As such, the impact of the APJ is reflected in the sections below capturing the actions of each of the Agencies. Indeed, it is fair to say that throughout the year, the level of activity undertaken by the Agencies in response to the needs of their clients has exceeded that envisaged by even the ambitious APJ suite of actions. The development of the 2018 Action Plan provides a valuable opportunity to maintain and build upon this momentum.

Many of the challenges facing our economy and our enterprise base reflect longer-term global trends. Brexit, however, is acting as a catalyst, bringing these challenges into sharper focus, expediting the need for firms to respond and adapt. This in turn behoves the Department, and indeed the entire Government system, to continue to develop effective policy responses to support enterprise.

It is important to acknowledge, however, that the majority of policies and interventions that are already in place to support enterprises and to help them grow and diversify remain relevant. In this context, the ongoing review of Enterprise 2025, offers a valuable opportunity to take stock and ensure that these policies are Brexit-proofed (see Appendix 2 for more detail).

The challenge now, is to identify the additional specific policies that are required to address Brexit and emerging global challenges and opportunities. It goes without saying, of course, that in identifying new actions to support our companies, we must also ensure we fully-utilise all of the existing supports that are in place.

The various studies currently underway will provide a valuable resource as DBEI's policy response continues to evolve. Not least, the outputs from these studies – particularly the studies examining the trade and sectoral impacts of Brexit – will contribute to the development of targeted, sector-specific messages and mitigation measures.

The table below summarises the broad strategic policy responses by DBEI to Brexit. These are contextualised and elaborated upon throughout this chapter. Specific mitigation measures are identified under a range of Agency and topic headings also.

Commitment		Timeline
Policy:	Complete the Action Plan for Jobs 2018 with a specific focus on Brexit mitigation policies <i>Develop actions which can commence in 2018 to support firms to overcome the challenges and to take advantage of the opportunities presented by Brexit</i>	Q1 2018
Policy:	Complete the Review of Enterprise 2025 <i>Ensure enterprise policy framework remains robust in the context of Brexit</i>	Q1 2018
Budget:	Secure sufficient capital funding and resources to assist the enterprise agencies to support firms respond to Brexit and global challenges <i>Secure the necessary resources to grow our enterprise agency footprint overseas</i>	Ongoing
Finance for business:	Follow up on notification to the European Commission in relation to the rescue and restructure scheme	Ongoing
Research:	Complete the study "Strategic Implications Arising from EU-UK Trading Patterns"	Q4 2017
Research:	Complete the study "Sectoral Implications of Brexit for Irish SMEs"	Q4 2017
Research:	Complete the study "Impact of WTO Tariffs on Cross-Border Trade" (Phase 2)	Q4 2017
Research:	Complete the study "Import Content of Irish Exports: Implications of Brexit for Inputs and Competitiveness"	Q1 2018
Research:	Complete the study "Addressing the Skills Needs Arising from the Potential Trading and Regulatory Implications of Brexit"	Q1 2018
Research:	Complete the study on "Potential Financial Impacts of Brexit on Irish Consumers"	Q4 2017
Sectors:	Include sector specific Brexit messages and mitigation measures (building on the outputs of the various DBEI studies and stakeholder consultations) in the planned update of DBEI sector briefs	Q2 2018

5.2 Budget 2017 and 2018

Budget 2017 and Budget 2018 contained many measures to assist Irish business to become more competitive and specifically, to cope with the impact of Brexit. Measures to support business include:

- > Reduced Capital Gains Tax to help entrepreneurs.
- > An extension of the Foreign Earnings Deduction until the end of 2020. In addition, the minimum number of days for travel is being reduced to 30 to help SMEs to access the incentive.
- > The extension of the Special Assignee Relief Programme (SARP) until the end of 2020. SARP is aimed at reducing the cost to companies of assigning skilled individuals and key decision-makers from abroad to take up positions in the Irish based operations of the employer. The extension is to provide certainty for foreign direct investment in Ireland, following on from the UK vote to leave the EU.
- > To support indigenous entrepreneurs and small businesses, the Earned Income Credit, which is available to self-employed individuals who do not have access to the PAYE credit, was increased in Budget 2017 and 2018. It supports sole traders, including farmers, who are generating economic activity across the country and, in many cases, competing in an increasingly globalised marketplace.
- > Budget 2018 saw the introduction of a share-based remuneration to facilitate the use of share-based remuneration by unquoted SME companies to attract key employees. Gains arising to employees on the exercise of KEEP share options will be liable to Capital Gains Tax on disposal of the shares, in place of the current liability to income tax, USC and PRSI.
- > Retention of the 9 per cent VAT Rate to support employment in the tourism and hospitality sector.

On the expenditure side, a range of capital spending increases have been announced which directly benefit enterprise. Overall, a mid-term review of the Capital Plan was carried out in 2017. Based on this review, over €4 billion in additional capital expenditure has been allocated over the period 2018 - 2021 as part of Estimates 2018. This is in addition to the €2.2 billion which has already been provided in support of the Action Plan for Housing and Homelessness over the same period. In overall terms, the planned total increase in public capital between 2018 and 2021 is 40 per cent above what was originally set out under the Capital Plan in 2015. Overall capital expenditure will double between 2015 and 2021 - from €3.7 billion to €7.8 billion to enable investment in infrastructure.

In terms of the monies secured by DBEI, increases in both 2017 and 2018 were allocated to ensure that the Agencies are well positioned to deal with the challenges that Brexit will undoubtedly present to their clients.

In Budget 2018, DBEI was allocated record funding totalling €871 million. This allocation is almost €48 million above the Mid-Term Expenditure Report 2017 published ceiling of €823 million; the DBEI capital budget increased by €40 million on the published ceiling to €560 million – a record Capital allocation for the Department - and this will increase by a further 7 per cent to €600 million in 2019 and 2020.

IDA Ireland will receive capital funding of €137 million in 2018 – this represents an increase of 45 per cent in the past 2 years (from €95 million). This funding will enable IDA Ireland to continue to deliver on its investment and job creation targets as set out in its five-year strategy “Winning Foreign Direct Investment 2015-2019”. Budget 2018 allocated €122 million to Enterprise Ireland to support innovation and another €63 million in capital funding for its general business supports. Capital grants to the Local Enterprise Offices increased by €4 million (an increase of 22 per cent) in 2017 to a total of €22.5 million. This allocation was maintained in 2018.

An additional €4.25 million in Capital funding has been provided to SFI in 2018. This will enable SFI continue its work underpinning Ireland's research capacity which is a key magnet of attraction for future investment and jobs creation in Ireland: SFI is directly supporting over 4,200 top-class researchers across the country who are involved in over 1,600 collaborations with industry. Typically, SFI funded researchers leverage in excess of €125 million from external, non-Exchequer sources (such as the EU and industry) every year.

The Department also secured an additional €3 million in current funding in both 2017 and 2018 to recruit up to 100 additional staff, specifically to assist in the response to the evolving Brexit scenario. As well as supporting Brexit-related staffing within the Department¹⁶, these resources have been distributed across Enterprise Ireland, IDA Ireland, Science Foundation Ireland and the Health and Safety Authority¹⁷. These additional resources will be assigned to both overseas offices in markets that are growing and have scale (including China, India, Latin America, Africa) and markets where we are already well-established but with potential for further growth (including UK, France, Benelux, Germany, US, Nordics). Irish based posts will address a range of Brexit issues, including the support for internationalisation activities, a strengthening of the LEOs ability to respond locally to help micro-enterprises, and enhanced support for innovation.

In addition, 35 posts that had been created within IDA Ireland as part of the 2014 "Winning Abroad" Programme were made permanent in 2017 to further strengthen the skills available to the Agency to address the challenges and opportunities associated with Brexit. The reinstatement of the IDA's graduate programme was another important measure to ensure that the Agency is better equipped to pursue and secure new FDI projects for Ireland.

In August 2017, the Taoiseach announced Government plans to double Ireland's global footprint by 2025. This means new and augmented diplomatic missions and significantly increased resources for DBEI's enterprise agencies as well as tourism, cultural and food agencies overseas¹⁸.

Looking forward, it is important that future budgets maintain an enterprise focus and deliver measures that support enterprise, entrepreneurship and employment – ensuring that our personal and enterprise tax regime remains internationally competitive is vital in this regard, as is the tax treatment of R&D expenditure. From a DBEI perspective, the enterprise agencies need to be sufficiently resourced so that they can respond to the very significant threats that Brexit poses to many Irish companies dependant on the UK market.

5.3 DBEI Actions to Support Enterprise: Funding for Enterprise

In the immediate aftermath of the Brexit referendum result, sterling weakened significantly against the euro, putting significant pressure on some Irish firms operating in tight margin business and dependent on the UK market. While there were calls to develop an intervention to address these currency effects, the more recent stabilisation of the exchange rate has provided an opportunity to consider the more medium-term needs of enterprise.

For instance, a hard Brexit – or any scenario that imposes substantial additional trade barriers - will likely require affected Irish SMEs to undergo more fundamental business changes than would occur under a more benign Brexit (i.e. one which would lead to short-term costs but no major business restructurings). Under a hard Brexit, it is likely that the cost of trade will increase arising from a volatile exchange rate, transit costs, diverging regulatory standards, border controls or trade tariffs.

16 For a brief description of internal DBEI structures relating to Brexit, see Appendix 1.

17 In 2017, €3m in additional funding was secured and was allocated as follows: Enterprise Ireland - €1.7m; IDA Ireland - €750,000; Science Foundation Ireland - €150,000; Health & Safety Authority - €150,000; Department of Jobs, Enterprise and Innovation - €250,000. A further €3m in additional funding for 2018 was allocated as follows: Enterprise Ireland - €1.3m; IDA Ireland - €700,000; Science Foundation Ireland - €400,000; Health & Safety Authority - €400,000; Department of Business, Enterprise and Innovation - €200,000.

18 Department of the Taoiseach, Press Release, Taoiseach announces initiative to Double Our Global Footprint by 2025, 21 August 2017

As a result, the UK's removal from the Single Market has the potential to obstruct trade and reduce bilateral trade flows between Ireland and the UK. The full impact will take some time to become apparent.

As noted in Box 2, Brexit poses particular short and long-term challenges for certain sectors – particularly the food industry (i.e. meat, prepared consumer food and horticulture sectors, but also for individual companies in other sectors including dairy). The businesses in these sectors are amongst those that will need to look at their business models and adapt accordingly. This will require firms to reduce costs and enhance their competitiveness, to diversify the markets into which they sell, and to increase their innovation activity – all of which will need to be underpinned by investment in the reskilling and/or upskilling of employees. Such activities are particularly relevant to SMEs, and require access to capital.

DBEI research shows that just over one in six (17 per cent) of all SMEs feel they do not have access to adequate business funding for business development and growth in Ireland over the next 18 months, while a quarter (25 per cent) of all Irish SMEs believe they will have a requirement for additional working capital funding over the next 18 months, a need which appears particularly acute amongst exporting companies, and more so for food exporting companies¹⁹.

These challenges illustrate the importance of SMEs developing investment plans in order to adapt their businesses for Brexit and also to adapt more generally for the longer-term. The State also has a role to play in this regard. Since 2009, Government has introduced a range of measures to support increases in SME credit to viable businesses - including lending targets for banks, the promotion of new SME credit providers, the provision of a credit guarantee scheme and the introduction of a range of non-financial or soft supports (e.g. measures to improve awareness levels amongst SMEs of the full suite of business supports available, and measures to enhance the financial capability of SMEs).

As a result of Brexit, further action is now required. It is essential, however, that Government supports are definitively targeted at vulnerable, but viable companies. DBEI is developing specific supports for companies to mitigate these impacts. Research and engagement indicates that some of the most exposed companies will need short-term support in accessing extra liquidity to cope with working capital challenges brought about by Brexit. They may also need longer-term support to invest in innovation and diversification in preparation for the post-Brexit environment.

In response, working in partnership with the Department of Agriculture, Food and the Marine, DBEI has secured Budget funding for a Brexit Loan Scheme which will provide affordable financing to Irish businesses that are either currently impacted by Brexit or will be in the future. The new Scheme will be delivered by the Strategic Banking Corporation of Ireland through commercial lenders to get much needed working capital into Irish businesses.

The Brexit Loan Scheme aims to make up to €300 million available to businesses with up to 499 employees at a proposed interest rate of 4 per cent. The scheme is open both to State Agency clients and those businesses that do not have any relationship with State Agencies. The finance will be easier to access, more competitively priced, and at more favourable terms than current offerings.

The Brexit Loan scheme aims to make up to €300 million available to business with up to 499 employees at a proposed interest rate of 4 per cent

19 DBEI, "Brexit – the View of Irish SMEs", Behaviour and Attitudes Survey, May 2017.

Additional measures which should be compatible with the EU State Aid framework are also under active consideration:

- > A longer-term investment loan guarantee scheme. This scheme would focus on Business Development to allow SMEs to invest for a post-Brexit environment and to address potential disruption that might arise (i.e. new market entry and development costs, trade facilitation requirements, new trading arrangements and possible tariffs, transport costs and trans-shipment costs, changes to regulations and standards and border controls and certification). It is intended that the Scheme will operate under the State Aid General Block Exemption Regulation.
- > A rescue and restructure scheme was pre-notified to the Commission at the end of August. While notification of such a scheme is required, the Department is not seeking any rule change or additional flexibility in this instance²⁰. Rescue and restructure scheme are provided for under the European Commission's "Guidelines on State Aid for rescuing and restructuring non-financial undertakings in difficulty" which was issued in 2014 under Article 107(3)(c) of the Treaty for the Functioning of the Economic Union. It is envisaged that this scheme would apply to all SMEs in the manufacturing or internationally traded services sectors, as well as to the fisheries and aquaculture sector, and SMEs engaged in processing and marketing in the agricultural sector.

DBEI has had a number of engagements at official and Ministerial level with the European Commission regarding Ireland's unique exposure to Brexit which may give rise to the need for specific flexibility in the State Aid rules. This is to ensure that we can take appropriate action in good time to ensure that our most exposed and impacted companies and sectors do not suffer irreparable damage, resulting in significant job losses, because of the UK's decision to leave the EU. We will continue with this engagement.

In addition to these measures, it is proposed that a Business Advisory Hub be developed. This would build on the existing supports available and on work being undertaken by Enterprise Ireland, the Local Enterprise Offices and the Credit Review Office. It would assist SMEs to make informed funding/investment decisions and help them avail of private market solutions or existing State supports. As part of the development of the longer-term (investment loan guarantee) scheme, consideration will be given to making an application to this scheme contingent on engagement with the Business Advisory Hub.

The need for such an advisory service is acknowledged by the SME representative groups who agree there is an issue with insufficiently prepared loan applications and business plans from SMEs. The exact nature of the type and scale of the advice and services to be provided by the Business Advisory Hub will require careful consideration prior to designing, funding and resourcing this initiative. Existing State supports and expertise could be utilised, but only if appropriate skill sets were available within the relevant organisations. The Hub needs to be a flexible resource that can help SMEs to react to financial challenges.

FUTURE BREXIT ACTIONS

- > **Develop proposals compatible with the EU State Aid Framework for a longer-term Investment Loan Guarantee Scheme.**
- > **Design and develop a Business Advisory Hub to assist SMEs to make informed funding/investment decisions as they respond to Brexit and other strategic challenges.**
- > **Engage with the European Commission on the approval process for the notified rescue and restructure Scheme, and on all Brexit-related State Aid issues.**

²⁰ Under the scheme, an undertaking is considered to be in difficulty when, it is facing acute liquidity needs due to exceptional and unforeseen circumstances. In addition, without intervention by the State, it will almost certainly be condemned to going out of business in the short or medium-term. Aid can only be granted if it contributes to a well-defined objective of common interest, if the need for a State intervention is shown, if the aid measure is appropriate, if the aid has an incentive effect, if the aid is proportionate, if any undue negative effects on competition and trade between Member States are avoided and if the aid is transparent.

5.4 DBEI Actions to Support Regions: Regional Action Plans for Jobs

As set out in DBEI's submission to the Mid-term Capital Review, strengthening enterprise capability in the regions is part of the longer-term response to the challenges of Brexit. Regional Ireland is particularly dependent on companies in traditional sectors such as food, construction, and manufacturing, that are heavily reliant on the UK market.

The Regional Action Plans for Jobs initiative is a concrete example of the targeted approach DBEI is leading on to boost regional employment. The 8 Regional Plans are being driven by dedicated committees, comprised of public and private sector representatives. The implications of the Brexit vote and the challenges and opportunities that the decision poses for all Irish Regions have been discussed by each Regional Action Plan for Jobs Implementation Committee.

To support enterprise development across all regions, funding of up to €60 million is being rolled out by Enterprise Ireland over the next 4 years to support the development and implementation of collaborative and innovative projects that can sustain and add to employment at a national, regional and county level. This competitive Regional Enterprise Development Fund will support the ambition, goals and implementation of the Regional Action Plans for Jobs.

As part of the Regional Action Plans, IDA Ireland is investing up to €150 million over five years in property solutions designed to allow it to create opportunities to win additional projects for all regions. This includes the construction of nine new advance facilities around the country. This is a positive development for attracting FDI into regional locations.

The Regions will also benefit from the wider Brexit response. For example, the IDA's increased capital allocation will enable it to continue delivering additional jobs across the regions.

FUTURE BREXIT ACTIONS

- > Through the Local Enterprise Offices, provide information, financial advice, training and mentoring to businesses impacted by Brexit.
- > Continue to support new start-ups and business expansion, in particular to businesses with export potential, through the network of Local Enterprise Offices.
- > Continue to support firm-level competitiveness and innovation amongst small and micro-enterprise cohorts through tailored supports including Lean4Micro and other targeted training initiatives.
- > Roll-out the Enterprise Ireland Regional Investment Fund with a 2nd call for proposals with funding of €25 million in Q1 2018.

5.5 DBEI Actions to Support the Retail Sector in Ireland

The retail and wholesale sector is a significant contributor to employment in Ireland, accounting for almost 1 in every 7 jobs, and is the largest private sector employer in the country. From an overall economic perspective, the sector generates €30 billion in sales annually, €7 billion in tax revenues and 23 per cent of overall tax returns.

Retail is particularly important from a regional perspective, supporting and providing jobs in every city, town and village in the country: there are 40,000 retail businesses across the entire country, 90 per cent of which are Irish-owned.

In response to significant job losses in the sector during the recession (50,000 jobs were lost over 4 years), the Department established the Retail Consultation Forum to provide a platform for structured engagement between the retail sector, Government Departments and public sector bodies.

In terms of the impact of Brexit, a number of key concerns emerge, including in the short-term the volatility evident in consumer sentiment. This is a result of the negotiations, and the impact of exchange rate fluctuations on import and consumer prices discussed previously. This issue is especially marked in border towns but is being felt across all regions.

Over a more medium-term horizon, retailers are concerned about the impact of Brexit on competitiveness and on their ability to invest and to grow; the potential impact arising from any new customs procedures and controls; the added logistical challenges, complications and costs which Brexit will impose on supply chains, and related distribution delays; and the risk of regulatory divergence.

FUTURE BREXIT ACTIONS

- > **DBEI will engage in bilateral discussions with relevant Government Departments to highlight the concerns of the retail sector and to identify solutions or supports for the sector to reduce the impact of Brexit.**
- > **DBEI will engage with DES to identify how to address the skills' needs of the sector in a hard Brexit scenario.**

5.6 Enterprise Ireland

Enterprise Ireland (EI) is the Agency responsible for the development and growth of Irish enterprises in world markets. EI's mission is to deliver a major improvement in the international strength of Irish enterprise across all regions by transforming the innovation and competitive capabilities of Irish companies. EI works in partnership with Irish enterprises to help them start, grow, innovate and win export sales in global markets. In this way, it supports sustainable economic growth, regional development and employment creation.

In this context, the suite of supports it offers is broad, spanning leadership, management development and training, internationalisation, productivity, RD&I, capital investment and access to finance. The agency has also played a key role in strengthening Ireland's VC environment. EI's remit also extends to commercialisation of state-funded research and to stimulating RD&I collaboration between companies, both foreign and Irish-owned, and with research institutes. It is also responsible for the attraction to Ireland of inward investment from foreign-owned food and beverage companies.

EI has set strategic ambitions to increase client exports by €5 billion to €26 billion per annum by 2020 and to support clients in the creation of 60,000 new jobs, as well as sustaining the existing 200,000 record level of jobs. EI will achieve these ambitious objectives by:

- > Increasing the levels of diversification of EI client companies into new export markets, with two thirds going beyond the UK;
- > Improving the competitiveness of EI client companies through Lean programmes;
- > Driving the innovation in Irish enterprise through new supports to reach a target of €1.25 billion in R&D expenditure per annum by 2020; and
- > Inspiring more companies to have Global Ambition.



Brexit and the related currency impacts have already impacted upon Enterprise Ireland's client base: client export growth to the UK slowed from 12 per cent in 2015 to 2 per cent in 2016. In general, firms have been understandably slow to react to the referendum results. Research by DBEI into over 1,000 firms in January 2017 indicated that half of firms had not yet experienced an impact from Brexit - but when asked about the future, three-quarters expected some impact over the following 12 to 18 months. The challenge is to take action as early as possible to prepare these firms for the realities of a post-Brexit trading environment.

Brexit could lead to Irish companies losing business in the UK, competing with the UK in third markets or Irish companies relocating to the UK. To address these concerns, companies need to be more competitive. For EI, that means proactive engagement with clients in delivering a suite of programmes, such as LEAN, R&D projects and capability, management and leadership capability as well as marketing and export diversification strategies. This will be the primary challenge over the period of EI's new Corporate Strategy for the period 2017 to 2020. More of this activity may be required as the environment becomes more challenging through 2018.

The supports for start-up businesses in the form of financial incentives, incubator space, mentoring etc. are readily available but the risk/reward offering to entrepreneurs and investors needs to remain competitive. There is also the possibility that the UK will enhance its offering as Brexit becomes a reality. EI may need to invest more in their range of supports to keep start-ups in Ireland, but more crucially we will have to continue to improve our risk/reward incentives.

Given the profile of their client base, EI has been particularly active in supporting firms in responding to Brexit. Specifically, in the immediate aftermath of the referendum result, EI was in contact with each of its client companies that export to the UK. As a result, EI knows, in detail, the level of their clients' exposure to Brexit associated risks.

Market Diversification

In relation to diversification, in March 2017 EI published its international events programme for 2017 to support Irish exporters which lists 145 events scheduled in Ireland and overseas to include 46 international trade visits with focus on market diversification into Eurozone and North America. EI has also launched a 'Global Ambition Campaign' which is a communications campaign to promote Irish companies and their products and services to international buyers.

EI also launched a new strategy to increase exports to the Eurozone by 50 per cent (€2 billion) by 2020 – this is a key response to any potential barriers which may adversely impact trade with the UK. This strategy includes the 'Irish Advantage' campaign, encouraging foreign buyers to link with Irish suppliers.

A key element of EI's outreach was undertaken during International Markets Week at the beginning of October 2016 – this saw more than 140 international market advisors from over 30 Enterprise Ireland overseas offices returned home to assist over 420 client companies develop their new global export plans in the context of Brexit. Over 1,400 meetings were scheduled with clients throughout the week and over 230 people attended the Enterprise Ireland Breakfast Briefing to hear advice from entrepreneurs who have succeeded in scaling in international markets.

In March, 2017 EI's #PrepareforBrexit communications campaign featuring the 'Brexit SME Scorecard' (on www.prepareforbrexit.ie) was launched. The 'Brexit SME Scorecard' is an interactive online platform which can be used by all Irish companies to self-assess their exposure to Brexit. The Scorecard uses a short diagnostic to generate a report scoring SME performance across a range of metrics against best practice. This can then be used to direct firms towards relevant schemes, programmes or other forms of assistance.

EI has also introduced a 'Be Prepared Grant' which offers up to €5,000 in funding to support exporting client companies develop a Brexit Action Plan. It is designed for SMEs who would benefit from further research and the use of external expertise in developing this plan.

Box 3:

Brexit SME Scorecard

- The 'Brexit SME Scorecard' is an interactive online platform developed by Enterprise Ireland which is open to all Irish companies to self-assess their exposure to Brexit.
- By completing a series of questions online across six key business pillars a comprehensive report is automatically generated which serves as a prompt and discussion document for firms to consider as part of their planning for Brexit.
- The report provides companies with a measure of their level of preparedness and compares this with best practice. This can then be used to direct firms towards relevant schemes, programmes or other forms of assistance.

EI and Research, Development and Innovation

Research, development and innovation (RDI) are essential components in a company's ability to maintain a competitive edge in the market and increase output. Continued support for innovation will therefore be crucial in light of Brexit in helping Irish companies protect their current exports and explore and compete in different markets.

It is essential that Irish companies make products and supply services that are more novel than their competitors, better performing, more efficiently delivered and cost effective for their customers. EI plays a key role in this regard by helping companies improve their competitiveness by supporting them to develop new processes, products or services.

EI's annual business results survey shows that companies that are RDI active are higher performing in terms of employment, export sales and are more sustainable through recessionary and other economic shocks such as Brexit. As a result, EI's RDI response to Brexit will be to:

- Enable companies to tap into external sources of innovation - locally through EI Technology Centres, EI Technology Gateways and the wider Irish research system; as well as internationally through Horizon 2020 and the European Space Agency. The Knowledge Transfer Ireland office in EI will play an important role in this regard as a connector, market place and will enable a smoother interaction between industry and academia.
- Help companies develop their internal innovation capabilities and capacities through training (i.e. Innovation 4 Growth programme & Excel at Innovation programme) and assistance with new key hires and access to innovation expertise and capabilities at home and abroad.
- Help companies increase their investment in RDI (target is an increase of 50 per cent by 2020) with the introduction of a new Innovation toolkit which will include:
 - The redevelopment of EI's RDI offer;
 - Aligning EI innovation supports to in-house company needs which will include redeveloping financial offers and advocacy;
 - New supports for process and business/organisational innovation;
 - Continued support for innovative public procurement through the Small Business Innovation Research initiative which will harness the purchasing power of the public system to drive Innovation;
 - A new support to unlock and focus the Irish Healthcare system's ability to drive healthcare innovation by enabling enhanced access to companies in Ireland through the National Healthcare Innovation Hub;
 - Support to provide multinational sub supply and partnering opportunities for SMEs;

- > Increased focus on assisting young Irish disruptive technology companies to access the significant EU Horizon 2020 SME instrument (Ireland is already one of the most efficient countries in Europe at winning this funding for its companies - Ireland had the highest success rate for the Horizon 2020 SME Instrument Phase 1 with a 16 per cent success rate compared to a European average of 6 per cent over the two-year period 2014 to 2015 - but there is more room to grow this opportunity);
- > Support to enable Irish companies to access funding support and contracts from Horizon 2020 and the European Space Agency respectively;
- > Extensions of the campus incubation facilities; and
- > Access to key talent - Enterprise Ireland will help with finding, hiring, growing and reaching impactful innovation people particularly through the Marie Curie Co-Fund which will enable 50 leading edge international researchers to work for Irish companies and a new offer to better condition new graduates to work in industry so that they can contribute to companies' growth more quickly and effectively.

These enhanced activities while serving to increase the diversity and scalability of clients will also serve to contribute to the most significant target in the Government's Innovation 2020 strategy, namely the doubling of business expenditure on R&D by 2020. At the same time the distributed delivery of many of Enterprise Ireland's RDI programmes, through Institutes of Technology & Universities, means that the majority of these supports are delivered to companies in the regions.

FUTURE BREXIT ACTIONS

- > Enterprise Ireland will over the immediate term, continue to engage one-to-one on a regular basis with clients to support their preparations for Brexit.
- > Enterprise Ireland will promote increased awareness and preparation across the economy for the various challenges posed by Brexit through the Brexit Scorecard.
- > Enterprise Ireland will promote export ambition and market diversification among clients through the Global Ambition Campaign.
- > Enterprise Ireland will develop stabilisation options to ensure, where necessary, that larger, strategically important companies that are viable but vulnerable can make the necessary investment to overcome the challenges of Brexit.
- > Enterprise Ireland will support companies to maintain and grow opportunities in the UK market. At the same time, EI will also support companies to grow market opportunities in the Single Market (in particular in the Eurozone), and in third country markets.
- > Enterprise Ireland will deliver an extensive programme of trade missions, trade visits, market study visits, inward buyer visits, market access programmes and other supports in support of market diversification in Q4 2017 and 2018.
- > Enterprise Ireland will roll out the #IrishAdvantage campaign to promote the attractiveness of Irish goods and services in export markets.
- > Enterprise Ireland will continue to support companies with supports for innovation, competitiveness, management and financial capability to become more resilient in international markets and to compete with other economies (including the UK) as a location for investment.
- > Enterprise Ireland will continue to support new high potential start-ups across the regions and sectors to strengthen Ireland's resilience to global economic challenges.

5.7 The Local Enterprise Offices

The Local Enterprise Offices (LEOs) are the first-stop-shop for anyone seeking guidance and support on starting or growing a business in Ireland. The LEOs aim to promote entrepreneurship, foster business start-ups and develop existing micro and small businesses, especially those with export potential. Financial supports are provided to new start-ups and businesses, with 10 employees or less, involved in manufacturing or internationally trading services. A range of interventions including start-your-own business, business training and mentor services etc. are more widely available.

LEOs provide access to a range of supports to small businesses (i.e. employing less than 50) either directly or by way of signposting to relevant providers. Such supports include innovation vouchers, trading online vouchers, lean start and management development supports.

As a result of the additional €4m in capital funding secured in Budget 2017 and maintained in 2018, a suite of LEO Brexit supports are available to micro and small businesses through the 31 LEOs nationwide. These supports, which are aimed at strengthening the capacity of micro and small businesses to better cope with the changing external environment, especially Brexit, include:

- > Access to the 'Brexit SME Scorecard' online tool where micro and smaller businesses can self-diagnose their readiness for Brexit;
- > A 'Technical Assistance for Micro-enterprises' grant designed to support qualifying businesses to diversify into new markets, enabling companies to explore and develop new market opportunities;
- > A 'Lean for Micro' programme available nationwide to help small businesses become more efficient and competitive;
- > A 'LEO Innovation and Investment Fund' pilot programme to support innovation in micro-enterprises and to help them become investor ready so that they can scale their businesses;
- > Tailored mentoring to address Brexit-related business challenges;

- > Targeted training on specific Brexit challenges, including financial aspects and capability building in innovation, competitiveness and opportunity diagnosis; and
- > Continued information, advice and guidance across all 31 LEOs and regionally.

In addition, the LEOs continue to implement the Trading Online Voucher Scheme. Since this scheme was initiated in mid-2014, the LEOs have approved over 2,600 vouchers to micro-enterprises looking to develop or enhance their ability to trade online²¹. The LEOs also continue to work in partnership with Micro Finance Ireland in assisting micro-enterprises to make MFI loan applications.

FUTURE BREXIT ACTIONS

- > LEOs will prepare and disseminate a suite of online information addressing practical issues aimed at micro-enterprises.
- > LEOs will conduct a survey of locally trading businesses to better understand the exposure and opportunities arising from Brexit amongst this cohort.
- > LEOs will continue to be proactive in identifying client businesses that are exposed to Brexit and to help them to plan their response, including exploiting new opportunities and leveraging the suite of LEO supports available.
- > LEOs will seek to leverage the Regional Competitive Funds to drive collaborative initiatives and peer-to-peer networking amongst micro and small businesses in certain sectors and activities.

21 The Trading Online scheme is currently being evaluated by the Department of Communications, Climate Action and Environment. The Department will be providing inputs on the future scope of the scheme and the potential to extend eligibility to larger companies, especially in the retail sector.



5.8 IDA Ireland

IDA Ireland's primary objective remains to partner with potential and existing clients to help them establish or expand their operations in Ireland. IDA Ireland operates in an environment of intense competition with other countries and investment promotion agencies.

IDA Ireland's transformational agenda aims to help foreign-owned entities already based in Ireland to continuously reposition so that they remain strategically important to the parent entity. The primary financial supports used to support this agenda include RD&I research, development and innovation, as well as training, capital and environmental supports.

IDA supports a range of overseas companies from small high-growth businesses to large multinationals. IDA Ireland's five-year strategy (2015-2019) is based on a policy of attracting investors who are seeking locations for advanced manufacturing or office-based activities which depend on highly-skilled processes or are involved in high value-added activities e.g. ICT, knowledge-based industries and Bio-Technology.

IDA continues to work towards the achievement of the targets that were set out in its strategy for the period 2015-2019:

- 900 new investments for Ireland;
- Support IDA clients in creating 80,000 new jobs; and
- Increase market share and help maximise the impact of FDI investments.

The potential for Brexit to result in increased FDI to Ireland has already been considered above. The IDA has received additional supports over the last 12 months to help the Agency to take advantage of opportunities for further FDI which arise as a result of the UK's withdrawal from the EU. These supports include:

- An additional €500,000 to enhance its global communications capacity;
- An increase to its pay budget to allow the IDA to hire additional staff in 2017 and 2018; and
- Additional capital funding for its grant and property programmes – key tools in attracting investment, Brexit-related or otherwise.

FUTURE BREXIT ACTIONS

- IDA Ireland will continue to engage with current and prospective clients on Brexit and the potential implications of the UK's departure from the EU for their investment decisions.
- IDA Ireland will carry out updated analysis and research on the FDI risks and opportunities associated with Brexit. This will include assessing new feedback from IDA clients on issues relating to Brexit.
- IDA Ireland will continue to hold events in key international locations, to promote Ireland as an attractive investment destination in the post-Brexit environment.

5.9 Science Foundation Ireland

Science Foundation Ireland (SFI) is the national foundation for investment in scientific and engineering research. SFI has supported the establishment of a number of National Research Centres, aligned with the research priority areas set out in Ireland's research prioritisation exercise and smart specialisation strategy.

SFI invests in academic researchers and research teams who are most likely to generate new knowledge, leading edge technologies and competitive enterprises in the fields of science, technology, engineering and maths (STEM).

The Agency also promotes and supports the study of, education in, and engagement with STEM and promotes an awareness and understanding of the value of STEM to society and, in particular, to the growth of the economy. SFI makes grants based upon the merit review of distinguished scientists. SFI also advances co-operative efforts among education, government, and industry that support its fields of emphasis and promotes Ireland's ensuing achievements around the world.

For Ireland, in the short to medium-term, the absence of certainty regarding the UK's future could impact Ireland-based researchers who are members of consortia containing UK researchers, by making them generally less competitive in Horizon 2020 funding calls.

In the longer-term, a potential UK exit from the European Research Area and from future funding frameworks could be positive for Irish researchers due to the reduced competition from a highly successful EU member. However, such a scenario could also be seen as a negative due to the reduced overall funding pot as the UK ceases to be a contributor, as well as potentially resulting in lower quality research being undertaken due to the absence of excellent UK-based researchers.

Given these considerations, SFI believes that supports need to be put in place to help the Irish research community to manage and mitigate the risks to their European funding performance. However, SFI also believes that there are significant opportunities associated with Brexit and that these require immediate and sustained focus and investment.

In response to the Brexit challenge, SFI aims to:

- Strengthen research funding collaborations with the UK and Northern Ireland with aim of supporting current collaborations and ensuring that we are well-positioned for the post-Brexit scenario;
- Target globally-renowned UK-based researchers to relocate their research operations to Irish universities;
- Support Irish researchers to diversify their alliances with other EU based researchers; and
- Scope medium and long-term post-Brexit opportunities for Ireland, with emphasis on identifying H2020 industry/academic consortia in which UK researchers are prominent and Irish researchers could be promoted as replacements and identifying EU research infrastructures based in the UK, which could potentially be relocated to Ireland.

FUTURE BREXIT ACTIONS

- SFI will target globally-renowned researchers to relocate their research operations to Irish universities, thereby benefiting Ireland but also offering these researchers certain access to EU funding. This can take the form of either internationally-based researchers co-locating to Ireland and the UK and holding a joint-professorship appointment with an Irish university and a top-4 UK university, or can involve a UK-based researcher re-locating all or part of their research operation to Ireland.
- SFI will develop an Ireland-UK co-funded PhD studentship scheme that fosters collaboration between Ireland's higher education institutes (through the SFI Research Centres) and the top universities in the UK, while also growing Ireland's PhD numbers.
- SFI will strengthen their research funding collaborations with the UK and Northern Ireland with the aim of ensuring that the Irish research community are well-positioned for the post-Brexit scenario, where Britain will continue to be a world-leader for innovation and R&D.
- SFI and the National Support Structure for Horizon 2020 will support Irish researchers to diversify their alliances with other EU-based researchers, thus mitigating the current risk of over-reliance on UK partners.
- SFI will scope medium and long-term post-Brexit opportunities for Ireland, with emphasis on identifying: a) H2020 industry/academic consortia in which UK researchers are prominent and where Irish researchers could be promoted as replacements – and will then run a scheme to promote the integration of the Irish research group; b) EU research infrastructures based in the UK, which could potentially be relocated to Ireland (e.g. the European Bioinformatics Institute).
- SFI will increase the intensity and targeting of promotion of SFI's relevant programmes to UK-based researchers through a focused advertising and PR campaign.

5.10 InterTrade Ireland

InterTrade Ireland (ITI) is a cross-border trade and business development body funded by DBEI in Ireland and the Department for the Economy in Northern Ireland. ITI helps small businesses explore new cross-border markets, develop new products, processes and services and become investor ready. It also provides practical cross-border business funding, business intelligence and meaningful contacts to SMEs across the island, North and South, looking to grow their businesses.

Given its role in promoting and supporting North-South commerce, ITI is especially well-positioned to help businesses both prepare for and address challenges that Brexit may present for cross-border trade. With that in mind, the Department has put in place two specific ITI Brexit initiatives.

- > The Department funded a research project undertaken by the ESRI for InterTrade Ireland. This study provides useful data on the extent and concentration of cross-border trade, including information on this trade by product, firm types and barriers to trade (see Chapter 2).
- > Additional funding was provided to ITI to undertake a range of initiatives for SMEs in the Republic of Ireland who are trading with Northern Ireland, to help them adapt to the changed circumstances following the UK's withdrawal from the EU. In May, InterTrade Ireland utilised this funding to launch a new dedicated 'Brexit Advisory Service'. This Service offers businesses a number of supports, including vouchers (valued at €1,000 allowing them to fund specialist advice), technical and commercial advice, information on currency hedging and an interactive information tool explaining the technical language related to Brexit.

In addition, ITI is establishing a Sectoral Advisory Panel, consisting of experts with hands-on exporting experience in specific sectors, to help ITI assess the impact of Brexit changes on particular sectors as negotiations evolve.

These advisors will assist ITI's internal team prepare appropriately tailored briefings, and in the provision and dissemination of guidance for SME's as the situation develops. This will include customer-facing materials and briefings that could aid and advise SMEs on the practicalities and impacts of the ongoing Brexit negotiations and what this could mean for businesses across the island.

FUTURE BREXIT ACTIONS

- > **ITI will continue the existing range of activities currently being managed under their Brexit Advisory Service.**
- > **ITI will initiate more intensive one-to-one clinics for SMEs, which will provide businesses with detailed advice on their specific Brexit-related challenges.**

5.11 The National Standards Authority of Ireland

The National Standards Authority of Ireland's (NSAI) mission, as the primary Irish authority for standardisation, certification and measurement services, is to contribute to an optimal business environment for trade and innovation through excellence and expertise in the provision of the highest quality services.

NSAI provides services to industry and the public through its Certification, Standards and Agrément (building products and processes) functions. It is responsible for both Legal and National Metrology functions, which ensures the accuracy of all measurements and measuring instruments used for trade and other purposes.

NSAI provides a comprehensive certification service in line with current European and international practices, offering an objective assessment of the quality and/or safety of a product or service.

Certification is recognised as an authoritative statement of conformity to applicable national and international standards. NSAI Inc. which is premised on FDI links, provides certification services in the United States and provides services such as conformity assessment primarily for the medical devices sector. NSAI develops, publishes, distributes and sells standards to meet Irish and European needs through consultation and consensus with stakeholders and interested parties.

The Legal Metrology Service's principal functions are to underpin confidence in trade measurements through exercising controls on measuring instruments and quantities of pre-packed and loose goods and to implement a national system of measurement (National Metrology). The National Metrology Laboratory (NML) is the national metrology body for Ireland and is responsible for the maintenance and development of the national standards for physical units and their dissemination to Irish users, mainly for the manufacturing and pharmaceutical industry.

The Irish Agrément Board (IAB) acts as a Consultative Committee to advise NSAI on construction products and processes suitable for Agrément assessment and certification for use in Ireland.

In preparation for Brexit, NSAI is working in partnership with DBEI and the enterprise agencies to mitigate the impact where possible and exploit any opportunities that arise within its remit.

FUTURE BREXIT ACTIONS

- **NSAI will continue to work with clients, including indigenous enterprise, across the regions and sectors to provide Ireland with the components necessary for an effective trading infrastructure for products and services to be developed, traded, and relied on nationally and around the world.**
- **NSAI will work with IDA Ireland to contribute positively to the Irish 'offering' that can influence decisions on FDI, where organisations rely on a developed standards and conformity assessment infrastructure to achieve their objectives, such as in the medical devices sector.**

5.12 The Health and Safety Authority

The Health and Safety Authority (HSA) is responsible for the administration and enforcement of workplace health and safety law in Ireland and the implementation of a number of EU Regulations and Directives governing chemicals. It also has responsibility for market surveillance in a number of key areas (machinery, lift, pressure equipment, chemicals and detergents).

The HSA regulates and promotes the safe manufacture, placing on the market, trade and use of chemicals as well as the transport of dangerous goods (including chemicals) by road through a range of different EU legislation (e.g., Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation; Classification, Labelling and Packaging of Substances and Mixtures (CLP) and the EU Carriage of Dangerous Goods by Road (ADR)).

An outlined above post-Brexit, Irish companies may face changes in how their chemicals supply chains operate including the selling of chemicals and chemical products into the UK and the sourcing/importing of chemicals used for example in the pharmaceutical, medical device and ICT manufacturing sectors.

The HSA has received additional current funding in 2017 (€150,000) and 2018 (€400,000) to recruit additional staff specifically to assist the Authority to respond to Brexit and support enterprise to prepare for the required operational changes.

The HSA hosts the Chemicals Helpdesk which provides support to firms and in particular SMEs, regarding all chemical regulations through ongoing responses to questions, E-bulletins; seminars, workshops and direct engagements with firms or trade organisations. The Chemicals Helpdesk will play a key role in supporting and assisting enterprises to adapt to the new regulatory requirements post-Brexit.

The HSA is planning additional outreach activities such as a workshop targeted towards companies that are manufacturers, importers, distributors and downstream users of chemicals. The aim will be to advise companies of the regulatory challenges they will need to address arising from Brexit in relation to REACH, CLP, Export-Import and other chemical and market surveillance requirements.

FUTURE BREXIT ACTIONS

- > **The HSA Chemicals Helpdesk will support and assist enterprises in reviewing their chemical supply chains and identify how best they can address changing regulatory roles as a result of Brexit.**

- > **HSA will host a Chemicals Workshop to advise companies on the regulatory challenges they will face with Brexit under REACH, CLP, Export-Import and other chemical and market surveillance requirements.**

5.13 Accreditation of Notified Bodies

The Irish National Accreditation Board (INAB) is the national body with responsibility for the accreditation of laboratories, certification bodies and inspection bodies, and has been located in the Health and Safety Authority since 2014. As accreditation needs to be done at a national level, there is a potential for a large number of applicants for accreditation moving from the UK's National Accreditation Body (UKAS) to Ireland (INAB).

There are two types of companies involved. The first relates to companies who were considering setting up a UK base prior to Brexit. The second relates to applicants from notified bodies. UK Notified Bodies under Technical Harmonisation Directives wishing to retain their current status must be designated by a notifying authority in a Member State.

Several UK Notified Bodies have shown an interest in gaining Notified Body Status in Ireland and other bodies are likely to do so over the coming year. Any Notified Body must obtain accreditation from INAB. While the increased interest in Ireland is welcome, there is a need to ensure that the integrity of the INAB accreditation system is maintained.

FUTURE BREXIT ACTIONS

- > **DBEI will work to identify UK Notified Bodies and facilitate the introduction of these bodies to INAB.**



APPENDIX 1:

Internal DBEI Structures to Respond to Brexit

The Department has set up a dedicated Brexit Unit to deal with the challenges of Brexit. This Unit leads on the coordination of the Department's policy and operational responses to Brexit, including our approach to the negotiations within the EU and bilateral relations with the UK. The Brexit Unit oversees research and analysis being undertaken by the Department and its Agencies and monitors research published by external bodies to better inform our policy response. The Unit also leads on engagement with a broad range of stakeholders to inform and validate our response to Brexit.

On the day that the referendum result was known a Co-ordination Group on Brexit was established in the Department, consisting of the CEOs of both IDA Ireland and Enterprise Ireland, and relevant enterprise, Single Market and trade officials from the Department to oversee implementation of our response to the emerging national, UK and EU developments. This Group, which the Tánaiste chairs, meets regularly and oversees the management of our response to the referendum result. It also facilitates regular engagement with the Agencies and Offices of the Department impacted by Brexit.

The Department has also established a Senior Officials Group on Brexit, chaired by the Secretary General, which supports the Management Board of the Department in ensuring a coherent and coordinated approach to Brexit across all areas of the Department.

To facilitate and encourage regular and comprehensive dialogue with enterprise, the Department established an Enterprise Forum on Brexit and Global Challenges. Membership includes 13 representatives from enterprise groups and the Forum is chaired by the Tánaiste, with meetings held every 6-8 weeks. This Forum provides an opportunity for the Department to share emerging research and policy approaches with the enterprise sector and to receive feedback on proposals. It also gives enterprise a platform to share their research and feedback from companies with the Department and to raise issues of concern, to highlight opportunities, and to suggest policy responses.

APPENDIX 2:

DBEI Enterprise Policy: An Export Led Approach

A range of policy documents set out the Government's overall approach to enterprise policy. Most notably, Enterprise 2025 sets out a long-term ambition and strategy to encourage and facilitate enterprise growth and job creation²². This document addresses the broader enterprise environment – the tools and levers available to the State to create a supportive enterprise ecosystem – and also sets out the rationale for a range of enterprise supports. As part of DBEI's overall response to Brexit, a review of Enterprise 2025 is currently underway to determine the extent to which the policy framework and priorities set out in Enterprise 2025 remain robust in light of recent significant and potentially disruptive changes in the global environment.

Whereas Enterprise 2025 is concerned with the longer-term, the Action Plan for Jobs provides a platform to develop and implement more immediate, short-term actions to support enterprise. Since its introduction in 2012, the Action Plan for Jobs has served as a focus for concerted, cross-Government action to strengthen our enterprise base and support job creation. New plans are published annually, setting out clear actions and targets to help create positive conditions for job creation. The whole-of-Government initiative sees all Government Departments and Agencies work together to deliver on agreed action points each year. The 2017 Plan included a particular focus on the effects of Brexit, with actions designed to encourage market diversification, improve competitiveness, and realise opportunities presented by Brexit – the majority of Brexit-related actions under these headings were addressed at this Department and its Agencies. Sector specific actions relating to tourism and agri-food were also included.

Innovation 2020 is Ireland's five-year strategy on research and development, science and technology. Innovation 2020 sets out the roadmap for continuing progress towards the goal of making Ireland a Global Innovation Leader, driving a strong sustainable economy and a better society. Underpinning these policy documents is a range of sectoral and regional initiatives which are referenced throughout this paper.

Through Innovation 2020, the Department coordinates the cross-Government strategy for research, development and innovation. Public investment in RD&I is considered critical to stimulate increased private RD&I activity by enterprise. Innovation is a sustainable response to Brexit which has been demonstrated to build resilience in enterprise to manage, exploit and survive global challenges such as Brexit²⁴.

Underpinning all of these documents is a consistent and coherent approach to enterprise policy. Ultimately, a competitive enterprise base is the core driver of economic growth. Government plays a key role in developing and sustaining a supportive enterprise environment that allows firms to be created, to innovate, survive and grow. It achieves this through a diverse range of policy levers including its taxation policy, through investment in human and physical capital, and through the development of a flexible and appropriate regulatory environment.

The creation of a supportive enterprise environment is a cross-cutting responsibility that touches upon virtually all Government Departments and many agencies. It is, naturally, a primary focus for DBEI.

The Department's mission is to lead "the creation and maintenance of high quality and sustainable full employment across all regions of the country by championing enterprise across government, by supporting a competitive enterprise base to incentivise work, enterprise, trade and investment and by promoting fair and competitive markets²⁵."

From an enterprise policy perspective, the main function of government is to create an environment that encourages investment, entrepreneurship and growth. Nevertheless, in a range of instances and through a variety of channels, the State does intervene to support firms more directly.

22 Department of Jobs, Enterprise and Innovation, Enterprise 2025: Innovative, Agile, Connected, November 2015

23 Department of Jobs, Enterprise and Innovation, Action Plan for Jobs 2017, February 2017

24 Department of Jobs, Enterprise and Innovation, Economic and Enterprise Impacts from Public Investment in R&D in Ireland, January 2017

25 Department of Jobs, Enterprise and Innovation, Statement of Strategy 2016-2019, January 2017

In this regard, the enterprise development agencies (IDA Ireland, Enterprise Ireland and Science Foundation Ireland) and the Local Enterprise Offices (LEOs) play a crucial role in delivering on enterprise policy objectives – in stimulating increased investments and delivering sustainable growth at the level of the enterprise and through the transformation of existing companies to accelerate growth in exports and job creation. There is a suite of interventions available through the Agencies aimed at stimulating increased and sustainable economic activity. The Department's capital allocation amounted to €555 million in 2017 and will be €560 million in 2018, and the collective employment now being directly, and indirectly, supported through the enterprise agencies is close to 870,000 jobs^{26,27}.

These Agency programmes operate within EU State Aid guidelines which set parameters for the grant intensities permitted. Direct financial interventions to support capacity building (in terms of capital and employment) are primarily targeted at those companies that are exporting and/or have the potential to do so. A range of 'soft' supports and advisory services are more widely available to small enterprises and facilitated through the Local Enterprise Offices and/or Enterprise Ireland.

Policy interventions are increasingly focused on building capability within enterprises - to enhance leadership skills, productivity and the potential to innovate in order to deliver on our objectives for sustainable job creation and growth over the longer-term. Focused investments are made by the Department through the enterprise agencies to strengthen the RD&I infrastructures (including national research centres, technology centres and gateway centres) and to enhance the VC funding environment.

The Government's commitment to job creation in the regions is illustrated by the Regional Action Plan for Jobs (RAPJ) initiative. This saw eight plans published throughout 2015 and 2016, which identified a range of actions aimed at supporting each region to achieve its economic potential and raise employment levels. The RAPJ initiative is a central pillar of the Government's ambition to create 200,000 new jobs by 2020, 135,000 of which are outside of Dublin. A key objective of each of the plans is to have a further 10 to 15 per cent at work in each region by 2020, with the unemployment rate of each region within one percentage point of the national average.

For a small open economy like Ireland, only export growth offers the potential for sustainable, longer-term economic growth on the basis of value added through increased productivity, innovation, and competitiveness. The majority of supports and interventions, therefore, are targeted at exporting firms, or firms with the potential to export. The nature of direct supports through the enterprise development agencies varies, however, depending on the market focus, maturity and stage of development of the sector and indeed, on the capabilities and objectives of individual firms within sectors.

Firms in locally traded activities are supported through interventions to improve the wider enterprise environment, and through a number of softer supports available through, for example, the Local Enterprise Offices.

26 Department of Jobs, Enterprise and Innovation, Mid-Term Capital Review 2018 -2021: Submission by the Department of Jobs, Enterprise & Innovation, March 2017

27 DBEI's capital budget is in addition to other tax expenditures which support enterprise. For example, Ireland offers a 25 per cent tax credit for R&D expenditure which can be set against a firm's corporation tax liability, meaning that for every €4 of R&D conducted, the firm can keep €1 of its corporation tax due. According to the Department of Finance, the R&D tax credit cost €553 million in 2014. See Department of Finance, Economic Evaluation of the R&D Tax Credit, October 2016

APPENDIX 3:

DBEI Trade Priorities in the Context of Brexit

A range of possible outcomes have been mooted when considering the shape of the future relationship between the EU and UK. These outcomes include various forms of customs unions, a model replicating in large part the existing European Free Trade Agreement²⁸, a comprehensive Free Trade Agreement (mirroring to some degree the Comprehensive Economic and Trade Agreement between Canada and the European Union), to less comprehensive deals relying on existing World Trade Organisation rules.

Without pre-empting the outputs from ongoing research (particularly the afore mentioned study examining the “Strategic Implications arising from EU-UK Trading Patterns”) and the formulation of positions through the negotiation process, DBEI has identified a number of initial, high level principles which guide our approach to the negotiations.

From an Irish perspective, in terms of trade policy, our first priority is to achieve an orderly withdrawal of the UK from the EU. We share the objective of having a close partnership with the UK after they leave - this could be underpinned by one or more agreements. Our ambition is to have a comprehensive Free Trade Agreement between the EU and the UK, covering not only goods but also services, to the greatest extent possible.

We fully support the phasing of negotiations acknowledged in the EU Guidelines - once sufficient progress is made in the first phase we are keen to open discussion on the future EU/UK relationship, particularly in trade.

While the EU 27 will only conclude a trade deal with the UK when it has left the EU, it can pave the way for it by anticipating its priorities for same and for any transitional period that may be required. This is important in view of Ireland’s wish to minimise the implications of Brexit for our trade and economy.

Ensuring a level playing field²⁹ is vital for Ireland and for continued economic sustainable development at the heart of a strong and well-functioning EU.

We will seek to minimise the imposition of tariffs and quotas in any future trade deal. Many studies have pointed to the impact on Ireland/UK trade of WTO tariffs being imposed with certain sectors more exposed being hit by higher tariffs (e.g. agri-food, meat, dairy).

We will also seek to minimise the introduction of non-tariff barriers to trade between the UK and the EU – this includes any impediments that limit the free flow of trade e.g. compliance with standards, provisions against regulatory divergence on existing rules & convergence on future rules, discipline across State Aids, certification - these can be provided for in an FTA.

A future trading relationship that results in the creation of new non-tariff barriers – for example a hard border, apart from creating significant political and societal difficulties, would raise the cost of doing business and reduce the competitiveness of Irish exporters. We welcome the commitment in the Guidelines to avoid the creation of a hard border on the island of Ireland, while respecting the integrity of the Union legal order.

We welcome the recognition in the EU Guidelines that transition arrangements will be required to minimise the disruption on trade. We need a bridge between current relationship and the future relationship as it will take time to work out all the details of the future relationship – we do not want a cliff edge scenario and we need to provide certainty for business and consumers.

Ireland is in a unique geographic situation – the UK is our land bridge to the EU, with 80 per cent of our goods exports being exported to the UK for direct use or onward transit. It is vital that transit is addressed in the exit agreement and we welcome that acknowledgment in the Negotiating Directives.

It is in the best interest of Ireland, the EU and the UK that we have a fair and comprehensive Free Trade Agreement between the EU and the UK and Ireland will work hard towards making that happen.

We need to ensure that in a transition phase and in the future relationship we have adequate governance arrangements in place. The “closest possible future relationship” between the EU and UK, must be based on a level playing field. In this context, ensuring regulatory convergence and equivalence between the EU and the UK will be essential. This will require mechanisms to monitor and, if possible, resolve such regulatory divergence. If the UK is not within ECJ jurisdiction, then an alternative governance structure will be necessary. The existing governance structures for FTAs should be examined and robust governance and surveillance put in place.

28 The European Economic Area (EEA) currently unites the 28 EU Member States in addition to three of the four European Free Trade Association (EFTA) States (Iceland, Norway and Liechtenstein) to form a Single Market governed by rules that enable the free movement of goods, persons, services and capital.

29 This includes issues such as environmental and labour standards, tax and State Aid, on seeking appropriate enforcement and dispute resolution mechanisms, on managing potential regulatory divergence and protecting the EU’s legal order, including the Single Market.

