Business on a connected island

July 2018

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“The opportunities offered by an all-island economy have been used by a wide range of firms in both jurisdictions to grow their businesses and create new jobs. As a result, what was once merely a concept is now an economic reality.”

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Executive Summary

There are significant benefits for businesses that operate on an all-island basis. As a natural economic zone with few restrictive barriers between jurisdictions, doing business in both allows additional scope, scale and substance to help drive growth and job creation.

Cross-border co-operation and gains are derived in a multitude of areas ranging from environmental collaboration, accident and emergency services, education, energy, tourism, recreation, social cohesion and transport. Indeed, the UK Government put the total number of areas of co-operation at over 140, with two thirds of these areas directly or indirectly underpinned by EU law.[1] However, this report focuses primarily on the 'all-island economy' and explores how businesses have gained from barrier-free co-operation across the island of Ireland. It seeks to present evidence on how businesses have developed all-island business models and attempts to present the all-island economy from a potential investor's perspective.

The case studies in this report demonstrate the extent to which firms operate on an all-island basis. These high growth firms include SMEs and large multinationals. Often the added value created by their all-island operations is not fully captured in official data or in the popular narrative.

The findings presented here provide an evidence base showing the depth, diversity and complexity of the contribution to economic growth made by all-island business. And the UK along with the European Commission have provided welcome assurances that all-island trade and the current invisible border will not be negatively impacted in any post-Brexit environment. This report aims to give policy makers and stakeholders new insights into the extent, scope and strengths of the all-island economy.[2] In doing so the report also highlights evident gaps between the comparative economic performance of Ireland and Northern Ireland in recent decades.

While both economies have benefited substantially from the peace process and its ability to attract investment it has not been to the same degree; this is evident when comparing Eurostat data on productivity levels. In Northern Ireland GDP per head amounted to £22,440/€27,400 in 2016 while Ireland's GDP per head in the same year was €58,800/ £48,185. With goods exported to the value of €119.2bn/£97.7bn in 2016 Ireland typically exports more in one month than Northern Ireland does in one year (HMRC data shows it exported £7.8bn/€9.5bn in 2016).

1. This number was provided by Lord Duncan of Springbank in a answer [HL6816] to Q from Lord Kilclooney on March 29 2018 https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Lords/2018-03-29/HL6816
2. In this Report the terms Ireland and Northern Ireland are used in line with the text of EU/UK Progress Report on the Article 50 Negotiation Process jointly presented last December.

Key findings: economic evidence

- Northern Ireland and Ireland have benefited economically because of the improvements brought about by the peace process and the invisible border which have included; offering potential investors a bigger consumer market, a larger labour pool, smooth logistics between jurisdictions, more efficient sourcing of inputs and ultimately the potential for a greater return on their investment.
- Today there are more than 6.6 mn people living on the island - Northern Ireland (1.86 mn) and Ireland (4.76 mn) – and the age profile of the all-island population is younger than in Britain.
- Combining the forecasts of the CSO and NISRA shows a projected population growth of 33% over the next 30 years to 8.8 mn people. Using a more optimistic - and in our view more realistic – projection, the island of Ireland could reach a population of 10mn people by the middle of this century.
- 2,869,000 persons are in employment on this island, and the number is growing strongly. The workforce has relatively high skills levels in both a UK and EU context.
- In a European context the total labour force is comparatively large. For instance, it is larger than the workforces of Denmark, Norway or Scotland.
- Educational attainment is significantly higher in Ireland with 53% of 30-35-year olds holding a third level education compared to 35.5% in Northern Ireland.
- An estimated 110 mn Northern Ireland to Ireland border crossings (by people) take place annually.
- 3,600 light goods vehicles crossed the border per day in either direction in 2016 using Ireland's National Roads, which is a total of about 1.3 mn journeys annually.
- The CSO estimates that from when the UK and Ireland joined the EU in 1973 to 2000 bilateral trade in goods on this island increased by a factor of 17.
- The creation of the Single Market and the peace process evidently boosted this growth.
- In 2017 intra-island trade in goods between Northern Ireland and Ireland was worth €3.23bn/£2.84bn **but currently there is no equivalent estimate for services**[3].
- Total consumer spending in the all-island economy is approximately £60.9bn/€74.3bn per annum of which approximately £44.6bn/€54.4bn is spent in Ireland and £16.3bn/€19.9bn Northern Ireland.[4]
- Exports from Ireland to Northern Ireland and in the other direction are dominated by the indigenous sectors of the economy and especially agri-food.
- 64% of the non-UK and Ireland visitors to Northern Ireland arrived via Ireland (448,000 of the total 700,000)

3. The figure was arrived at using 2017 annual FX Euro:£ 0.88.
4. The figure was arrived at using 2016 annual FX Euro:£ 0.82.

Key findings: case studies

Market size

Companies located on the island benefit from the scale provided by an all-island market for goods and services. It is a substantial commercial benefit for companies to access almost seamlessly a market of 6.6 mn people. Products can be manufactured in one jurisdiction and easily sold in the other. Existing sales, distribution, or management structures do not have to be duplicated. The scale provided by the larger all-island market means that companies who choose to trade in that market are more efficient about how they produce and distribute their products. This leads to better prospects for long-term growth and job creation. Market size is also a significant factor for foreign direct investors when assessing their location options.

Integrated supply chains

The inputs needed to manufacture goods are often sourced from different parts of the island. A single market on the island allows companies to source materials more effectively. Using ingredients and other inputs from either side of the border can be used as a hedge against exchange rate fluctuations. Moving these inputs relies on highly efficient distribution and logistics networks that are enabled by an invisible border. This has enabled companies to produce goods and services more efficiently.

Pooled labour market

A major success of the all-island economy has been the integrated labour market that is now thriving. Access to a wider pool of talent has been one of the main benefits for companies, particularly to firms that are in Northern Ireland where the labour force is smaller than and not as qualified as in Ireland. An all-island labour market offers greater flexibility for companies and the talent they recruit. They can choose to locate staff where they are needed most, while also offering a broader choice of locations to prospective recruits. A continuous supply of labour and the ability to attract more labour is a key benefit of working on an all-island basis. Any post-Brexit restriction to the flow of labour available to Northern Ireland firms while Ireland has full access to EU migrant workers and a significantly larger indigenous population, would seriously distort the labour market between both jurisdictions. Such a scenario would have negative economic and social consequences for cross border regions, workers and service providers.

Post-Brexit impact on the all-island economy

Any restrictions on either the free movement of goods, services, or people throughout the island would have a detrimental impact on a vast number of businesses that have chosen to operate an all-island business model. A change to the current border arrangements would inevitably harm growth prospects for businesses and deter investment in both jurisdictions. Hampering free movement would make it more difficult for companies to distribute goods and services and to recruit the right talent. It would also make the manufacturing of goods less efficient and possibly lead companies to make duplicative investments on both sides of the border. A distinct worry would be the imposition of customs or other checks that lead to delays. This would cause major difficulties for integrated ‘just in time’ manufacturing processes, which rely on products and inputs arriving as they are needed. Firms have also expressed a fear of rising non-tariff barriers such as an increase in bureaucracy and administration costs that might be pushed back on to the firm - this is a particular worry for small companies along with the consequences of delays and disruptions to time sensitive production and supply chains.

Recommendations

Based on the evidence set out in this report the following key recommendations are made to protect the investment made by businesses in the connected island in the lead up and following the UK's exit from the EU:

Protect the all-island economy for future growth:
All parties engaged in or impacted by the Article 50 Negotiations should take on board the evidence presented in this report on the gains for business, economic growth and job creation that are currently underpinned by the Belfast/Good Friday Agreement. These gains need to be protected as the UK leaves the EU so as not to turn the clock back on both peace and prosperity.

A collective response is required for future growth:
Government must engage further with business to design the detailed, innovative and workable solutions needed to protect and build on the benefits of the all-island economy and ensure its future development is not hampered in any way.

Infrastructure provision key to future growth:
Both jurisdictions need to make significant investments in infrastructure to support the economic gains and opportunities identified in this report. In Ireland this has begun in earnest – now it requires the speedy implementation of the National Planning Framework (NPF) and National Development Plan (NDP) including its all-island priorities. Northern Ireland's Regional Development Strategy 2035 published back in 2010 requires immediate updating and equally rapid progress is needed to deliver essential infrastructure investment in the short and longer term. Failure to do so will result in increasingly chronic infrastructure deficits that negatively impact on competiveness and the quality of people's lives.

Ensuring future skills needs are met:
Skills development is a shared objective for economic growth, business development and attracting future investment. Previous collaboration by the Expert Group on Future Skills in Ireland and the NI Skills Expert Group should be built upon to provide the evidence to underpin policies that will deliver the necessary workforce and provide a greater understanding of skills demand across the island. Obviously any imbalance across the island in terms of the supply of future skills would have a detrimental impact on the overall goal of having a prosperous island of 10 mn people.

All-island economic activity should be better measured:
There is a need to enhance significantly the reach and scope of official data that identifies all-island economic activity. Whether this is carried out through the designated statistical bodies on each side of the border, or through InterTradeIreland, it would provide a more complete and illuminating picture of the synergies that exist across both jurisdictions on the island. Amongst the most urgent requirements is to have data on the all-island market in services to track the rapid growth for which there is persuasive anecdotal insights but a lack of official statistics to provide a sound evidence base.

Introduction

Origin

The all-island economy developed to its current scale because of three seminal events that took place during the 1990s:

1) The creation on January 1st, 1993 of the EU Single Market which was completed with four freedoms – the free movement of goods, capital, services, and labour;
2) A year later (in 1994) the Provisional IRA and Loyalist Ceasefires[5];
3) The 1998 referendum that delivered overwhelming support for the Belfast/Good Friday Peace Agreement.

Together these three events provided the certainty, security and stability that businesses in Ireland and Northern Ireland required to achieve a level of prosperity that could only be attained with a peaceful backdrop.

In 1992 Sir George Quigley, at a Confederation of Irish Industry (CII) conference, promoted the idea of the all-island economy. He suggested that following the creation of the Single Market *"the European Community should regard the island of Ireland as one economic area....and support the idea of developing a Belfast/Dublin Economic Corridor"* .

Benefits

In practice what he envisaged was for the island to function as a 'natural economic zone'. This would bring enhanced competitiveness by creating integrated investment, recruitment, production, marketing and supply chains. It would also allow universities and firms across the island to collaborate more closely through their research and development programmes, supported by EU funding.

For individuals and households, it would bring greater employment opportunities with the chance to seamlessly work in one jurisdiction and live in the other. The creation of high quality employment opportunities would help raise the standard of living across jurisdictions as economic conditions improved. Citizens on both sides of the border were expected to benefit from more 'joined up' and efficient public service provision in fields such as health, education and security. A larger population was also predicted to attract additional investment (both foreign and indigenous).

This report attempts to determine the extent to which this ambition has been realised. A measure of the extent to which these expectations have been met is provided by the analysis contained in this report.

Evolution

The opportunities offered by an all-island economy have been used by a wide range of firms in both jurisdictions to grow their businesses and create new jobs. As a result, what was once merely a concept is now an economic reality. Firms can and do choose to treat the island of Ireland as a single economic area. An all-island business model is realistic and viable for companies. Firms and sectors operating an 'all-island business model' leverage the island's population, indigenous resources, labour supply and consumer market.

The importance of this model for businesses in Northern Ireland has been recognised by the UK Government in advance of it leaving the EU:

> *"...the sale of finished products to Britain relies upon cross-border trade in raw materials and components within integrated supply chains meaning trade with both Britain and Ireland are vital to Northern Ireland's economy".*[7]

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5. A Provisional IRA Ceasefire was declared on August 31st and a Loyalist Ceasefire on October 13th
6. The CII is today Ibec and this paper *'Ireland: An Island Economy'* is reproduced in full in *'A time To Speak: Reflections on economic, social and other issues'*: Sir George Quigley, Ulster Bank, 2015
7. *The UK's Exit from the European Union: Northern Ireland and Ireland – Position Paper, Additional Data Paper: Northern Ireland Trade Data and Statistics.* HM Government, August 2017

The ability to operate an all-island business model is underpinned by Ireland's and the UK's membership in the European Union, through the Single Market and the Customs Union. It has removed the most problematic, costly and restrictive barriers that developed following the island's Partition in 1921 and the consequent necessity for official checks and controls on the movement of people, goods and services along the island's 499km/310 mile border.

Companies have understood the all-island economy's benefits and have been attracted to invest as the peace process embedded and as political unrest and civil disorder were consigned to history books. Perhaps when compared to the private sector's economic activity and gains derived from adopting an all-island approach, the achievements to date for public services across the island have been slower to reach their full potential (in terms of cost savings and greater efficiency). Nonetheless, in recent years that cross border engagement for public services has begun to develop particularly for health and education, for example in children's cardiac care and radiology for cancer patients in the North West. There are real economic, social and environmental dividends already being seen and many more to come if pursued with strong intent and ambition.

The economic principle set out in the 1990s for the concept of an all-island economy was succinctly summarised as:

> *"Border crossings (being) built on the firm foundations of mutual economic benefits"* [8]

Evidence

It remains difficult to present data that fully reflects the depth and complexity of the all-island economy. However, in recognition of the risk posed by Brexit, more research is being undertaken. Although the business community is confident that the all-island economy has delivered on initial expectations, there are gaps and missing links in the official all-island statistics.

Important work continues to be done to monitor all-island economic activity by organisations such as InterTradeIreland, the Centre for Cross Border Studies (CCBS), the ESRI, NISRA, the Office of National Statistics (ONS) and the Central Statistics Office (CSO). However, much more research is needed.

Fundamental difficulties remain in the joined-up measuring of all-island economic activity, especially to identify the economic impact of potential future all-island economic gains, such as in energy supply, supply chains, services and delivering connected infrastructure projects.

Up until now, collating and combining data from both jurisdictions has not been completed in the comprehensive depth and detail Ibec and CBI fundamentally believe it merits. It is necessary and urgent for this to change and for new methods to be developed.

Contribution

This report draws together available statistical evidence from official sources that it is possible or reasonable to combine. By doing so, it presents a wide ranging, original and unique overview on the performance of the all-island economy. It makes three main contributions to the emerging debate on protecting the all-island economy both now and into the future.

1. It combines and presents key data on population, employment, production, trade and consumers to form an all-island picture.
2. It illuminates the scale and variety of economic and business activity taking place across the all-island economy through a selection of case studies.
3. It makes recommendations on both mitigating the risks and protecting the all-island economy in the lead up to and following the UK exit from the EU.

8. Paul Tansey in *'Selling the island 'Tourism: A Product with Big Potential'* from *'Border Crossings: Developing Ireland's Island Economy'*: Editors Michael D'Arcy and Tim Dickson, Gill&Macmillan, 1995

Preparation

This report has been prepared on behalf of the Ibec/CBI NI Joint Business Council (JBC).

It follows on and supports previous Ibec/CBI collaboration in areas such as all-island infrastructure and energy. Both the CBI and Ibec are fully committed to ensuring that businesses in Ireland and Northern Ireland continue to benefit from the Belfast/Good Friday Agreement and the consequent peace and increasing social harmony that has been underpinning economic growth and job creation for the last 20 years.

The business community firmly believes that only peace and economic prosperity in both regions can deliver investment and job opportunities for future generations. By promoting peace and economic collaboration, the Ibec/CBI Joint Business Council can help to further improve the living standards and well-being of every citizen. In that endeavour, the different identities that prevail within this economic zone must also be respected and safeguarded.

Section One
All-island population trends

Growth patterns

From 1911 to 1961 the all-island population fell by 3% but in recent decades the island has experienced significant population growth. Today there are 6.6mn people living in both Northern Ireland (1.86mn) and Ireland (4.76mn). Although the population is much greater in Ireland, both jurisdictions gain from the larger combined market of 6.6mn that is currently available to prospective investors.

However, population trends in both jurisdictions are different.

Northern Ireland's population grew steadily at an average rate of 0.5% per year from 1911-2016 while in Ireland from 1911-1961 the population fell by 11% but then began to grow for the first time since the Great Famine. This trend has continued since and accelerated from the 1990s onwards.

Figure 1: Population

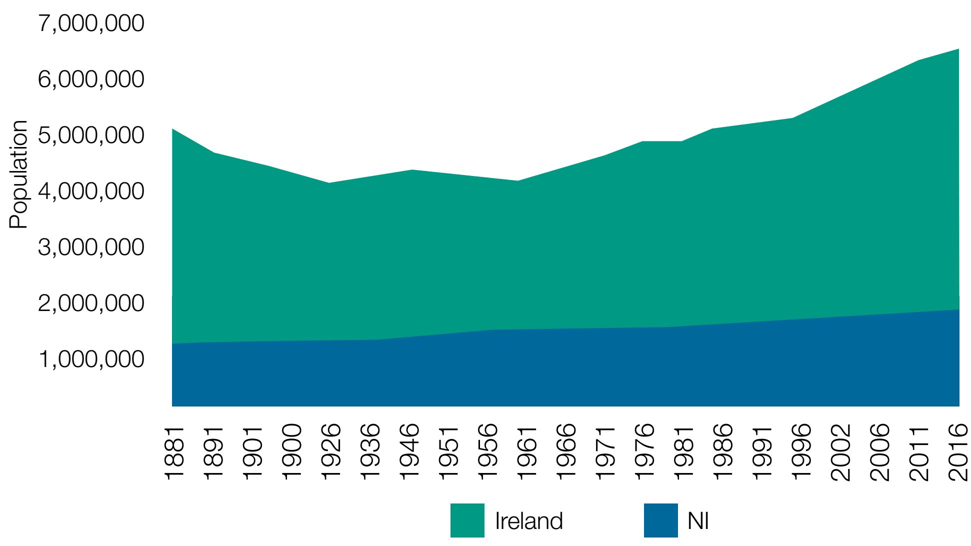
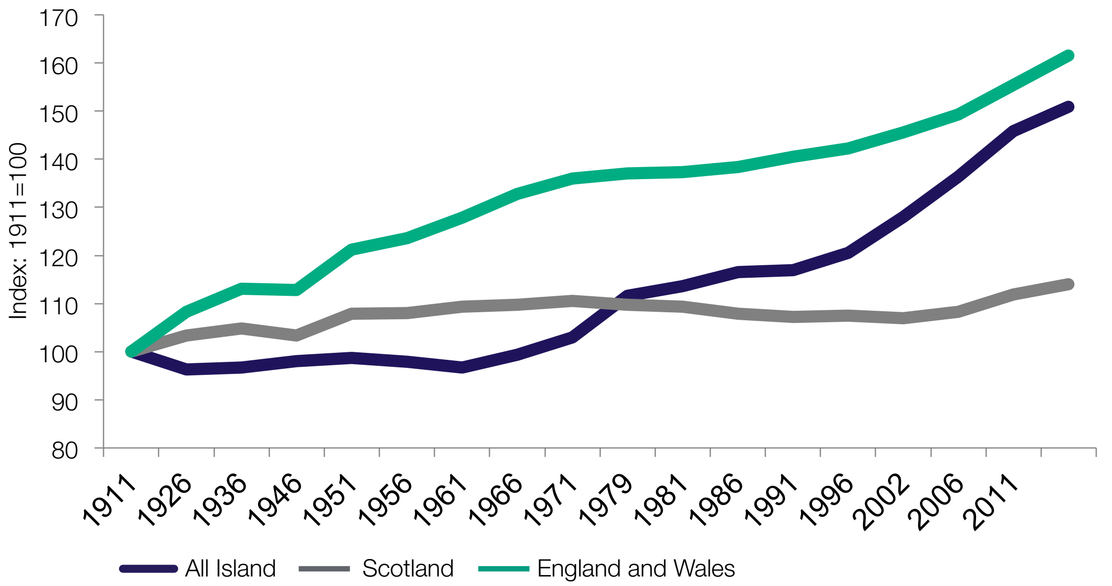


Figure 2: Population trends, 1911-2016

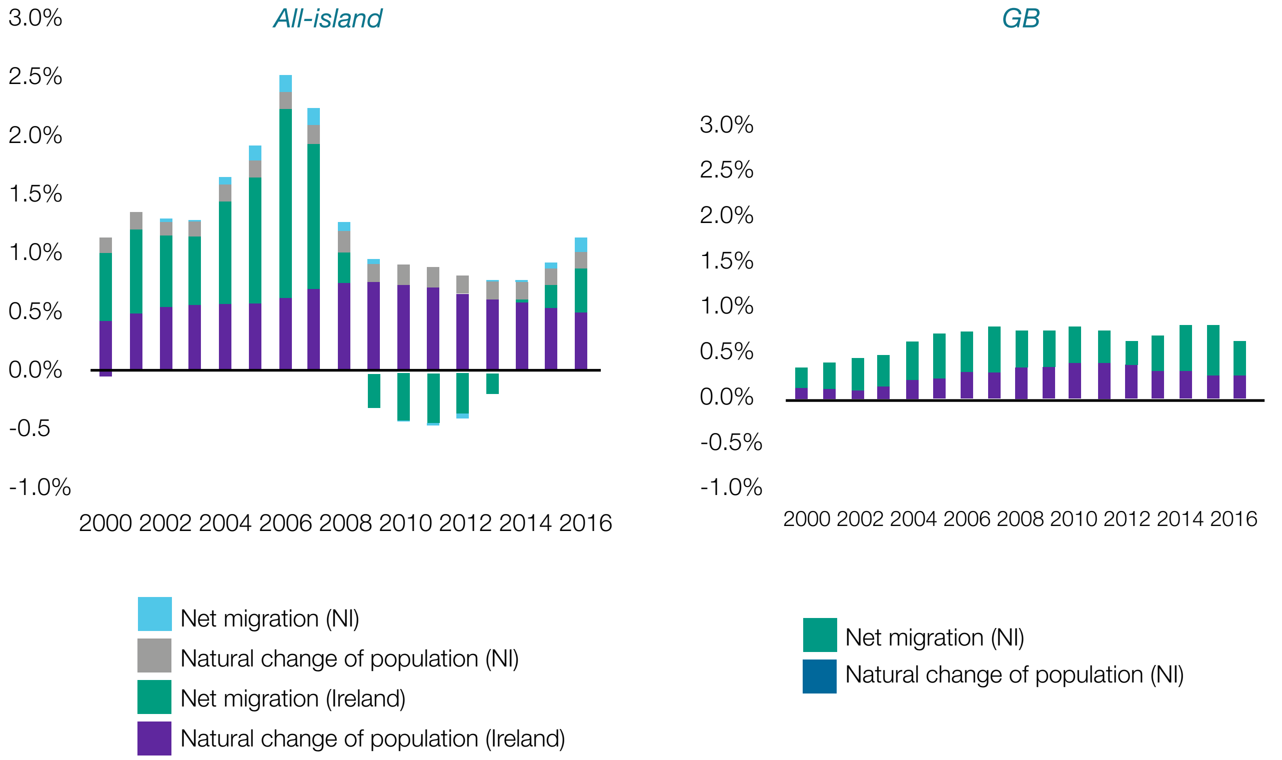


Source: Author's calculations using CSO (Census) and ONS (Population Estimates) data

From 1996-2016 population growth across the island of Ireland (at 25%) was more than twice the population growth rate in Britain (11%).

For England and Wales immigration has been the main driver of population growth, while birth rates are the key demographic force for the all-island economy. In the past 10 years, the natural change (births-deaths) contributed to an 8.8% increase in its population. The result is higher population growth on this island (11%) than in Great Britain (8%), despite having a lower level of net inward migration as Figure 3 shows.

Figure 3: Breakdown of population growth



Source Author's calculations using CSO (Population Estimates) and ONS (Population Estimates)

Table 1. Current and projected population trends, 2016 – 2026.

	Total Population 2016	% of population under 30 years of age 2016	% of Population of working age 2016	Projected % of working age population by 2026
NI	1,862,100	39.0%	64.4%	62.1%
Ireland	4,761,865	39.5%	65.0%	64.2%
All-island economy	6,623,965	39.4%	65.2%	63.7%
Great Britain	63,785,900	36.8%	64.2%	62.2%

Author's calculations using CSO (Current Population and Labour Force Projections, 2011) and ONS (National Population Projections, 2016)

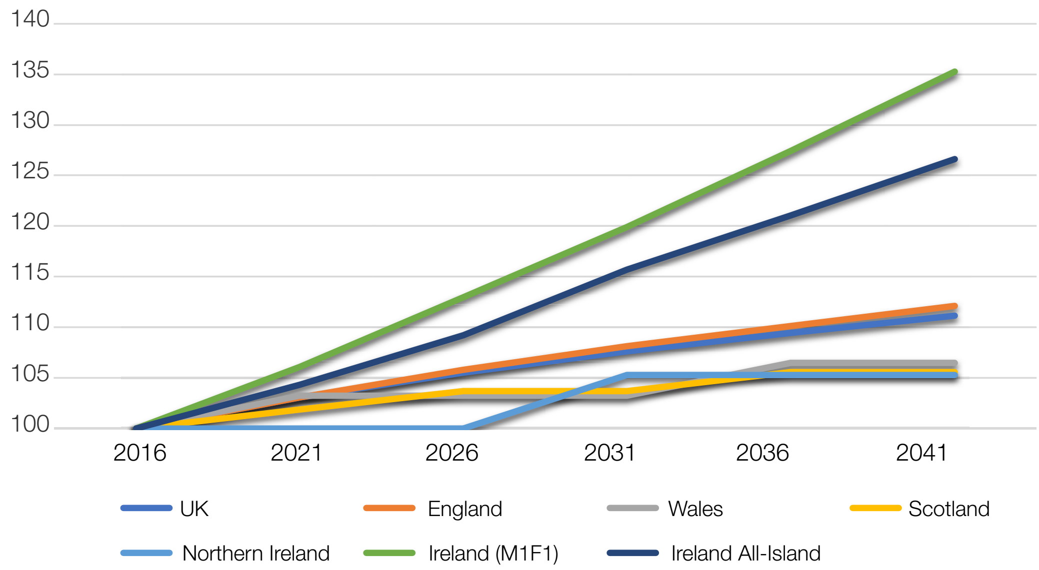
Due to higher birth rates, the average age of the all-island population is lower than in Great Britain, with more than 27% under 20 years of age and 54% under 40. The equivalent figures are 23% and 50% in these age cohorts in Great Britain.

Projections

Looking further ahead and combining the forecasts of the CSO and NISRA shows a projected population growth of 33% over the next 30 years to 8.8 mn people.

Previous work conducted by Ibec and CBI NI shows that there are strong grounds to expect that the all-island population could reach 10 mn people by the middle of this century. By contrast, population growth in Great Britain is expected to be lower - growing by 16% over the next 30 years as shown in Figure 4. At this stage it is difficult to be sure but Brexit may alter these projections as it may lead to a reduction in the level of immigration that has been the driver of Great Britain's population growth in recent years.

Figure 4: Population projections, 2016-2041



Source: Author's calculations using CSO (Current Population and Labour Force Projections, 2011) and ONS (National Population Projections, 2016

Section Two
All-island economic activity

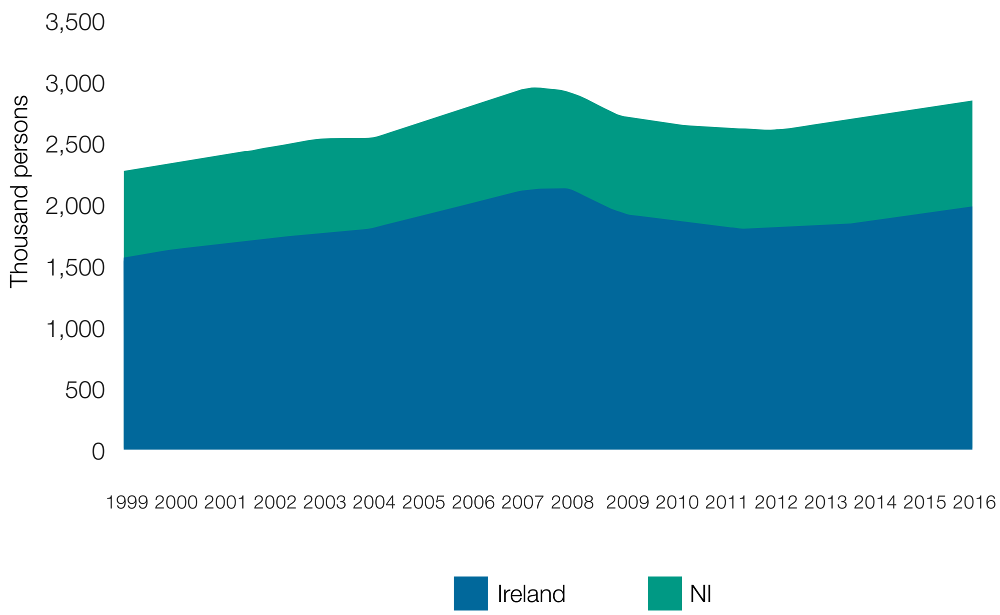
2 (i): The all-island workforce

Job creation

The combined number in employment in Ireland and Northern Ireland has increased by almost one-third (32%) since 1998 when the Belfast/Good Friday Agreement was signed. As a result, there are 2,869,000 persons in employment on this island, and this number continues to grow rapidly.

The Agreement has underpinned peace and so helped to provide the necessary stability for a strong expansion of employment on both sides of the border. The result is that total employment in Ireland has increased by 37% and in Northern Ireland by 20% since the Belfast/ Good Friday Agreement, despite the 2007 Recession.

Figure 5: Total employment in the all-island economy



Source: Author's calculations using Eurostat (Regional Labour Market statistics, 2016)

Economic drivers

Growth in the all-island economy has made an evident contribution to this strong performance in job creation. However, the precise level of job creation in each jurisdiction stemming from all-island economic activity is difficult to quantify. Quite simply firms will create jobs because they expand their market base or set up operations across the island's invisible border. However, extrapolating those jobs created from this all-island economic activity out of the official job creation data is currently not possible.

However, firms from Ireland made up 19.8% (320) of all Northern Ireland businesses classified as 'foreign-owned' in 2017.[9] When measured by associated employment, these firms were responsible for 9.8% of all jobs provided by foreign direct investors in Northern Ireland.

In addition to the Irish-owned FDI jobs that have been created in NI, further jobs have also been created by Northern Ireland indigenous firms that expanded their operations by choosing to do business in Ireland. Although those jobs are not captured separately in the official statistics, the case studies in this report demonstrate that they would add substantially to the total.

Relative scale

The all-island labour force is now comparatively large in a European context, being larger than that in Denmark, Norway or Scotland.

Though this scale benefit is being taken advantage of by business, it is rarely considered by policy makers and economists. However, it should be noted that any future arrangements that could stifle the ease of labour flow between the two jurisdictions, or indeed place a limit on the availability of labour in Northern Ireland relative to Ireland, would be harmful and create an unlevel playing field for firms and investors.

Make up of employment

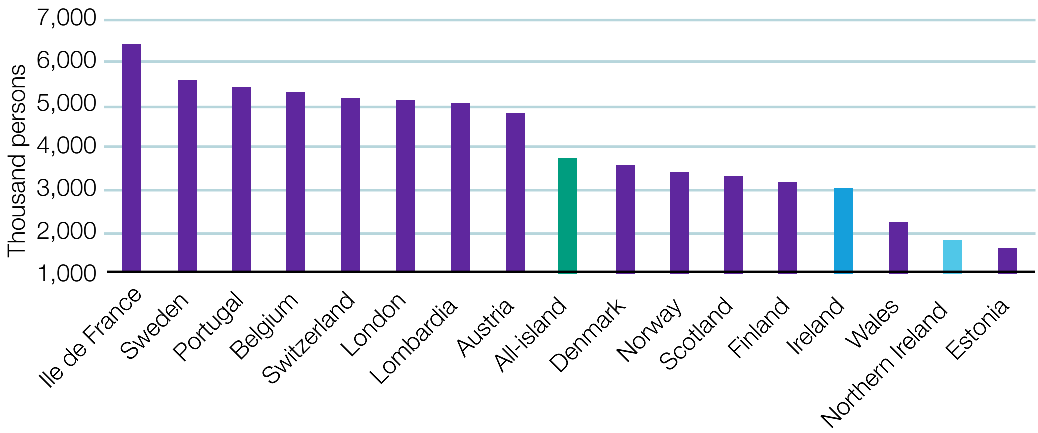
The private sector accounts for 74% of jobs in the all-island economy. The largest private employer is 'wholesale and retail' accounting for 25% of employment and the mainly traded sectors of agriculture, manufacturing, professional services and ICT make up over 35%.

Education levels

Combining data from Northern Ireland and Ireland shows that just over 48% of 30-35-year olds have a third level degree so the all-island workforce has relatively high skills levels in both a UK and EU context.

However, third level qualifications are more prevalent in Ireland than in Northern Ireland. Some 53% of 30-35-year olds in Ireland have a third level degree compared to 35.5% in Northern Ireland. By recruiting in both jurisdictions, Northern Ireland firms gain access to a wider and more highly-educated skills pool.

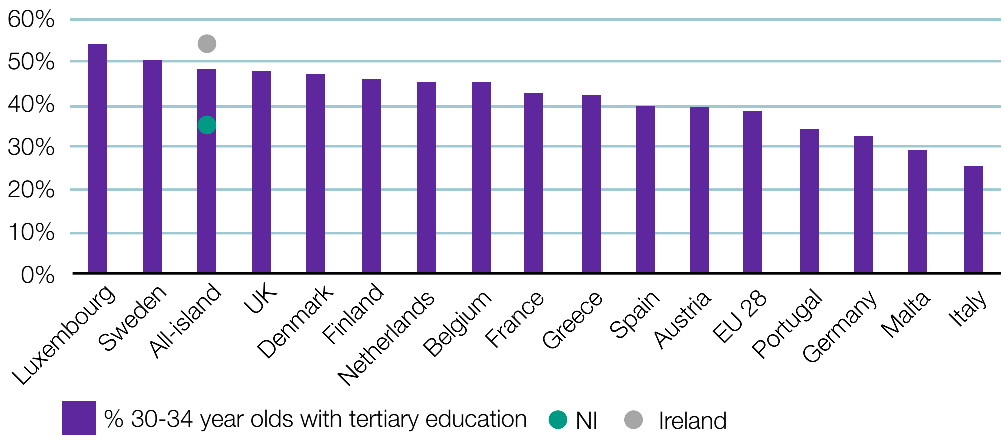
Figure 6: Regional labour force comparisons



Source: Author's calculations using Eurostat (Regional Labour Market statistics, 2016

9. Northern Ireland Inter Departmental Business Register, 2017. NISRA, 2017. Available at: https://www.nisra.gov.uk/sites/nisra.gov.uk/files/publications/2erdIDBR%20Publication%202017_0.pdf

Figure 7: % of 30-35 year olds educated to third level



Source: Author's calculations using Eurostat (Regional Education statistics, 2017

2 (ii): All-island earnings

Average earnings

Wages in Ireland are substantially higher than in Northern Ireland. Sectoral make-up of the Irish economy, productivity levels, educational attainment and company size are some of the factors that have given rise to this differential. While higher wages could make the all-island economy less competitive from a cost perspective it also works to boost aggregate spending power for the island. When average earnings per head in both jurisdictions are combined they are 8% higher than in Scotland and 23% higher than Wales.

In 2016 average hourly wages were 55% higher in Ireland than in Northern Ireland. This disparity extends across different sectors, particularly in manufacturing where wages were 69% higher in Ireland. Average wages across the all-island economy are 5.7% higher than the UK, and in ICT 9.7% higher than the UK.

Table 2: Comparative earnings in Ireland and Northern Ireland in 2016

	Average hourly wages 2016	Manufacturing average hourly wage 2016	ICT average hourly wage 2016	Retail average hourly wage 2016
NI	£13.87	£12.51	£18.51	£10.82
Ireland	€26.20/£21.47	€25.80/ £21.14	€36.50/£29.90	€20.2/£16.55
All-island economy	€19.24	€18.61	€26.56	€14.87
Great Britain	£18.20	£17.5	£24.2	£15.5

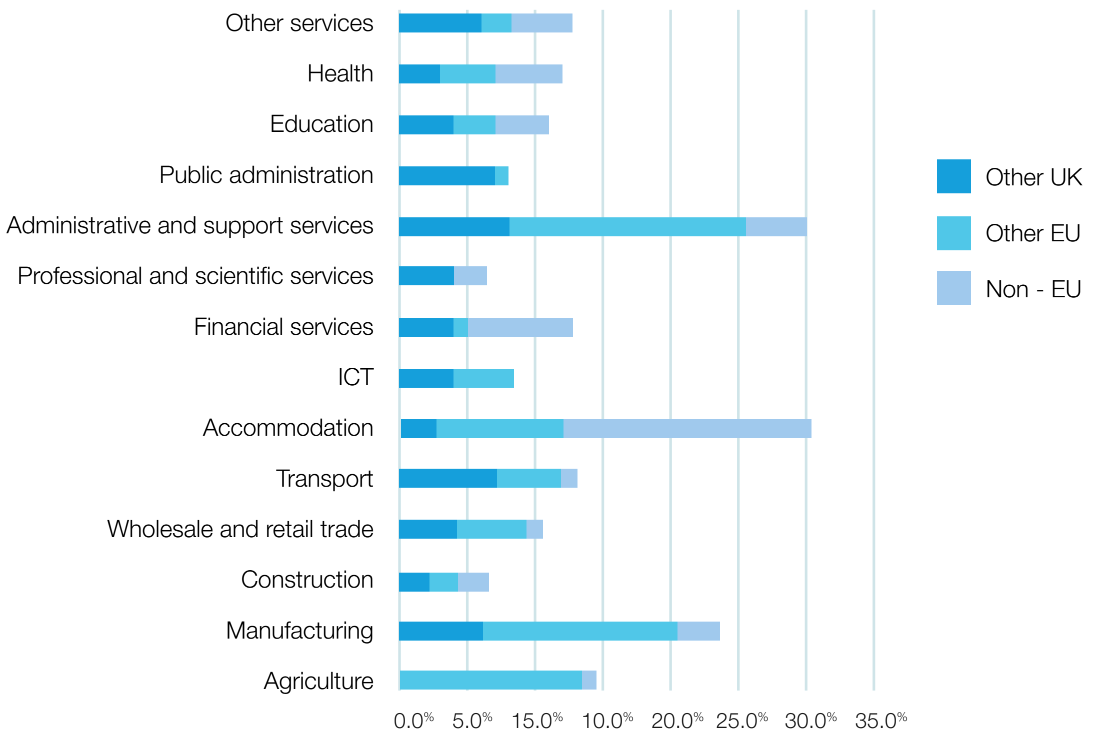
Source: CSO (Earnings Hours and Employment costs, 2016) and ONS (Earnings and working hours, 2016

2 (iii): All-island employment patterns

Labour supply
To fill skills gap in their workforces, employers in both Northern Ireland and Ireland, particularly in the higher value-added sectors such as agri-food, pharma, manufacturing, universities and in rapidly growing IT services are reliant on the ability to hire talented employees from across the EU.

It is estimated that around 83,000 people with a nationality outside of the UK were in employment in Northern Ireland in 2016 (equating 10% of all people in employment). The majority of these workers have EU nationality. The following figures for Northern Ireland and Ireland highlight the sectoral demand for migrant workers.

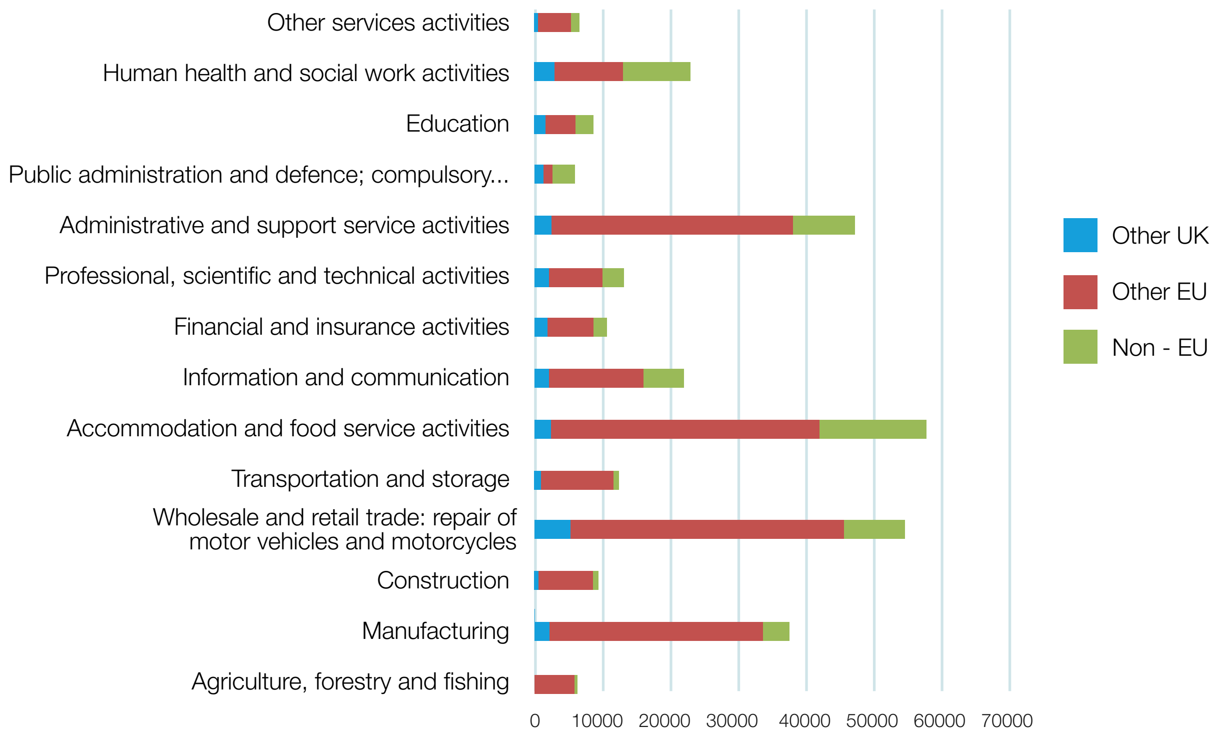
Figure 8: Non-indigenous workers by sector in Northern Ireland



Source: Initial Analysis of the Challenges and Opportunities of Brexit for the Derry City and Strabane and Donegal County Council areas - The North-West City Region (February 2017)

10. http://www.donegalcoco.ie/business/north%20west%20strategic%20growth/

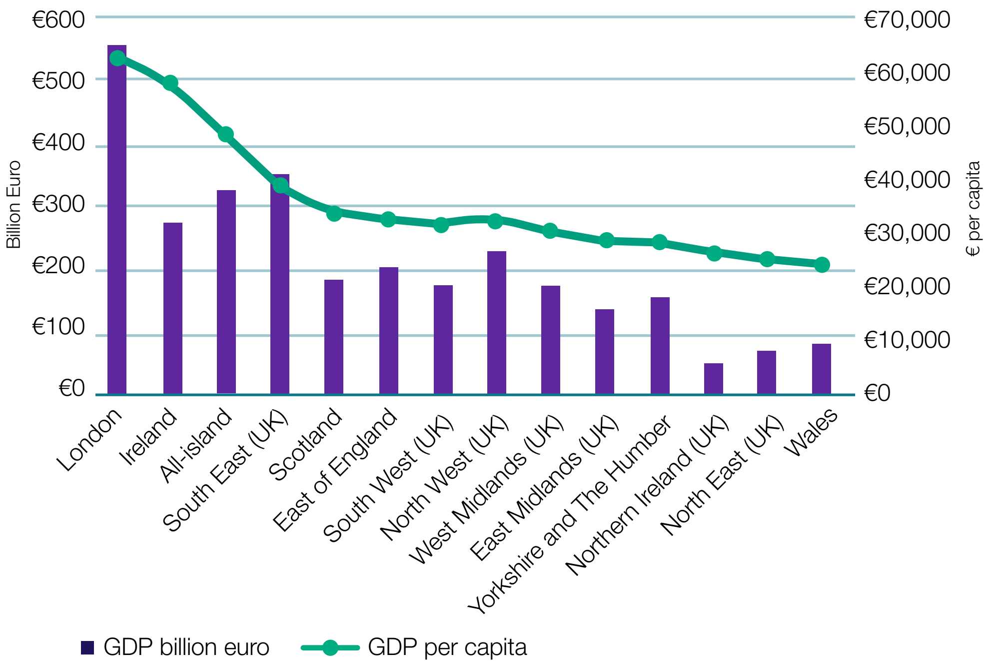
Figure 9: Foreign nationals employed by sector in Ireland, 2015



Source: CSO. Available data for Northern Ireland has been presented alongside equivalent data for Ireland rather than being combined as there are a number of complexities in doing so.

Residency
The Common Travel Area between the UK and Ireland has encouraged many citizens to take up residency in their neighbouring jurisdiction for work, study or retirement purposes. According to Ireland's 2016 Census, the number of people born in the UK and living in Ireland is 277,200 with 57,000 of these UK citizens coming from Northern Ireland. As a result, UK citizens in Ireland make up 5.6% of its population, 8% of its workforce, and 10% of students. Of the 57,000 Northern Ireland citizens living in Ireland in 2016, 47% (27,000) are living in counties along the border. According to the 2011 Northern Ireland Census, 38,000 residents were born in Ireland and they are also concentrated close to the land border.

Figure 10: Regional GDP and GDP per capita



Source: Author's calculations using Eurostat (Regional Economic Accounts, 2016)

2 (iv): All-island economic indicators

Market Size

Economic output in the all-island economy is approximately €326bn. This makes it the third largest regional economy within the British-Irish Isles, second only to the London economy and England's South East.

The all-island economy has the second highest GDP per capita after London at €49,308. However, there is a significant disparity on the island, as GDP per capita is more than twice as high in Ireland than in Northern Ireland (€58,800 to €27,400).

Household expenditure

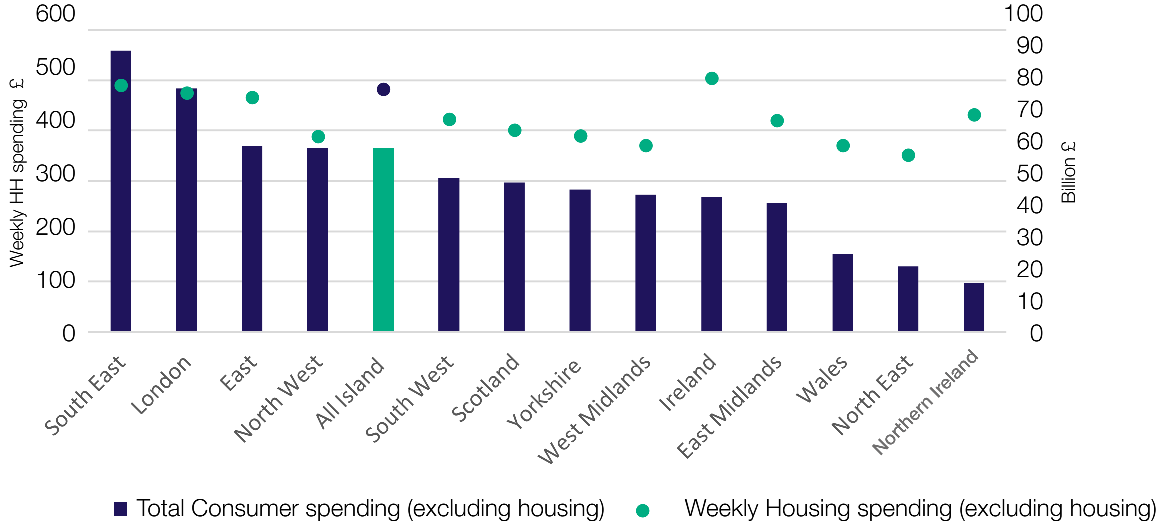
Combining existing CSO and ONS data for 2015 shows that excluding housing, total consumer spending in the all-island economy is approximately £60.9bn/€74.3bn per annum[11] and average household spend per week is £482/€587.

This figure is the second highest of any region in these islands after the South East of England (£489/€596). It is also slightly higher than London (at £475/€579) and significantly higher than Scotland (19% higher) or Wales (30% higher).

However, as Figure 11 shows there remains a significant gap between consumer spending in Northern Ireland and Ireland. Nonetheless, investors recognise foreign exchange movements can encourage households to consider spending across jurisdictions. The evidence for cross-border shopping has been presented by InterTradeIreland (ITI) which reports that between 2008 and 2017, cars registered in Ireland accounted (on average) for 47% occupancy of car parks for selected Northern Ireland shopping centres attractive to cross border consumers.[12]

11. The figure was arrived at using 2016 annual FX Euro:£ 0.824.
12. http://www.intertradeireland.com/researchandpublications/trade-statistics/cross-border-shopping/

Figure 11: Consumer spending (excluding housing)



Source: Author's calculations using CSO (Household Budget Survey, 2015) and ONS (Family Spending in the UK, 2015)

Spending Patterns

Combining CSO and ONS data on household expenditure also shows that households on the island of Ireland spend significantly more and on a greater variety of products than those in Great Britain. And while there is a gap between how much is spent between households in Northern Ireland and Ireland there are similarities in what they spend most money upon compared to Great Britain.

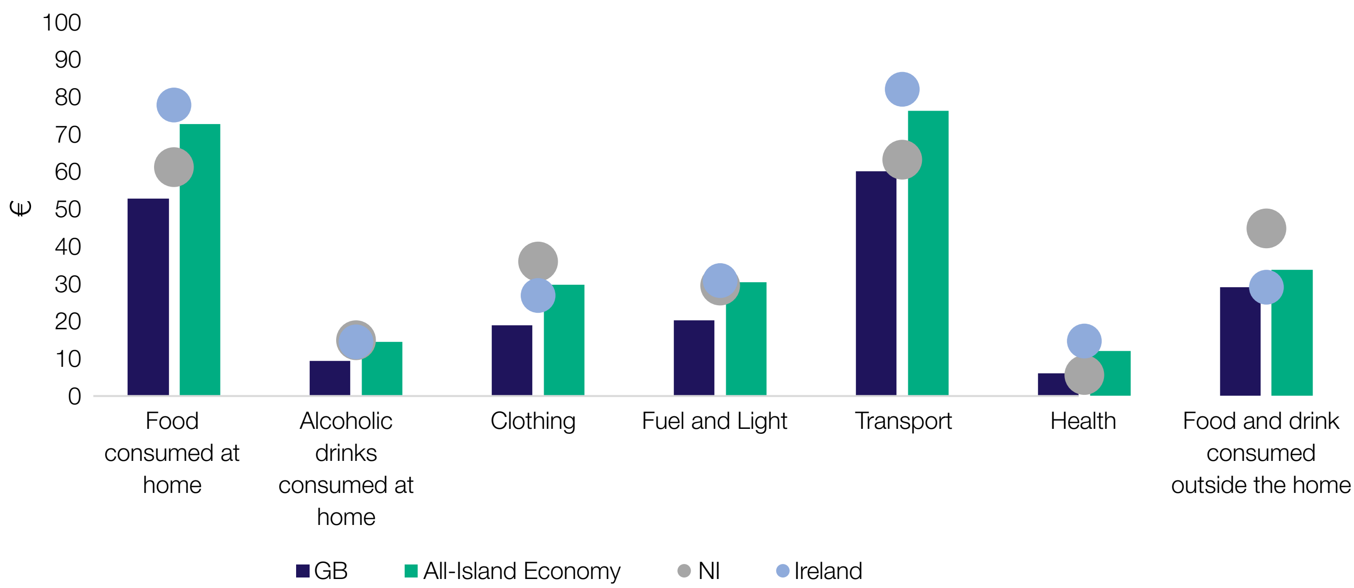
In Northern Ireland, the average weekly spend in 2015 was £432/€527 per week while in Ireland it was £503/€614 per week. Taken together, the average all-island household spends £482/€589 per week which is 14% higher than the average spend across the UK.

While expenditure is higher in all five of the main expenditure lines, Figure 12 demonstrates that the additional spend is largely made up of extra spend on food (35% more than the average in Great Britain).

The scale of the consumer market for food in the all-island economy is worth approximately £9.5bn/€11.59bn making it the third largest of any region across the two islands.

This all-island food market is supplied by a range of deeply integrated all-island supply chains and benefits from appropriate weather conditions, high quality indigenous resources and efficient all-island production methods.

Figure 12: Weekly spending per household



Ibec calculations using CSO (Household Budget Survey, 2015) and ONS (Family Spending in the UK, 2015)

2 (v): Trade flows within the all-island economy

Value

It is important when reading this section to keep in mind that the data shown does not capture the all-island trade in services and this is examined in more detail below.

The CSO estimates that bilateral trade between Northern Ireland and Ireland in goods alone increased by a factor of 17 from when the UK and Ireland joined the EU in 1973 up to 2000.

As shown in Figure 13 there was steady and solid growth in all-island business activity during the 1970s and 1980s despite the 'Troubles'. Then in the 1990s there was a marked acceleration following the formation of the Single Market, a boost from the ceasefires and rapid growth in indigenous business in the early Celtic Tiger years.

The performance of all-island trade in goods in the next decade was more volatile possibly due to competitiveness pressures on the indigenous Irish firms. From 2000-2010 exports and growth in the Irish indigenous sector was crowded out by the property boom and the significant loss of competitiveness. A partial recovery was ended by the financial crisis.

Since 2009 growth has picked up again. As a result, in 2017 exports from Ireland to Northern Ireland were €1.96bn/£1.72bn and imports were €1.27bn /£1.12bn.[13]

This data shows intra-island trade in goods has grown substantially compared to the comparatively lower levels of the 1970s. Yet in 1993 the level of this cross-border economic activity was the lowest in the EU.

An acceleration in volume occurred after 1992 and despite setbacks such as the dotcom recession (after 2001) and the financial crisis (starting in 2007) levels are now approaching the EU average. However, sterling's Brexit-related devaluation will undoubtedly have had a dampening effect on the Irish-NI trade flows.

Figure 13: Trade flows (goods)

Source: CSO (External Trade, 2017)

13. The figure was arrived at using 2017 annual FX Euro:£ 0.88).

Figure 14: % total exports by destination

Source: CSO (External Trade, 2017)

Trade Flow Components:
CSO statistics show that exports from Ireland to Northern Ireland are dominated by the indigenous sectors of the economy. Food makes up the largest element of this trade accounting for 27.8% of the total volume of exports to Northern Ireland and 36.4% of the exports in the other direction as shown in Figure 14.

Data from the CSO (shown in Table 3 below) shows that Ireland's top 6 exports to Northern Ireland, as a sub set of exports to the entire UK accounted for €341.2mn in 2015 with agri-food (meat and meat preparations), medical and pharmaceutical products and organic chemicals accounting for the top three sectors. In terms of Ireland's top 6 imports from the UK, €189.9mn of the total came from Northern Ireland and again the largest category is agri-food (meat and dairy products).

Table 3: Irish exports to the United Kingdom, 2015 classified by commodity

SITC Level 2 (€000)		Great Britain	Northern Ireland	United Kingdom
01	Meat & meat preparations	€1,720,791	€182,325	€1,903,116
54	Medical & pharmaceutical products	€1,488,604	€37,480	€1,526,064
51	Organic chemicals	€1,025,473	€4,513	€1,029,986
55	Essential oils, perfume materials; toilet & cleansing preps	€724,580	€47,124	€771,704
02	Diary products & birds eggs	€705,217	€65,848	€771,066
79	Other transport equipment	€642,542	€3,950	€646,492

Source: CSO

Value and Volume: trends in trade
Figure 15 below shows that in overall terms, the total value in 2016 of intra all-island exports to Northern Ireland from Ireland as a proportion of all exports remains comparatively small at 1 per cent. This is partly due to the high value nature of pharmaceutical and other similar products exported to other markets.

When it comes to volume of goods exported, as shown in Figure 16, the proportion going to Northern Ireland is greater at around 19% - a significantly large proportion of Ireland's export base. This difference is explained by the makeup of these exports as outlined above.

The most recent available data from the CSO for 2017 shows goods imports to Ireland from Northern Ireland grew by 18.6% (€1.3bn) while exports to Northern Ireland grew by 18.5% (€2bn). Trade between Ireland and GB also grew strongly in 2017 with imports up 10% and exports up 8%.

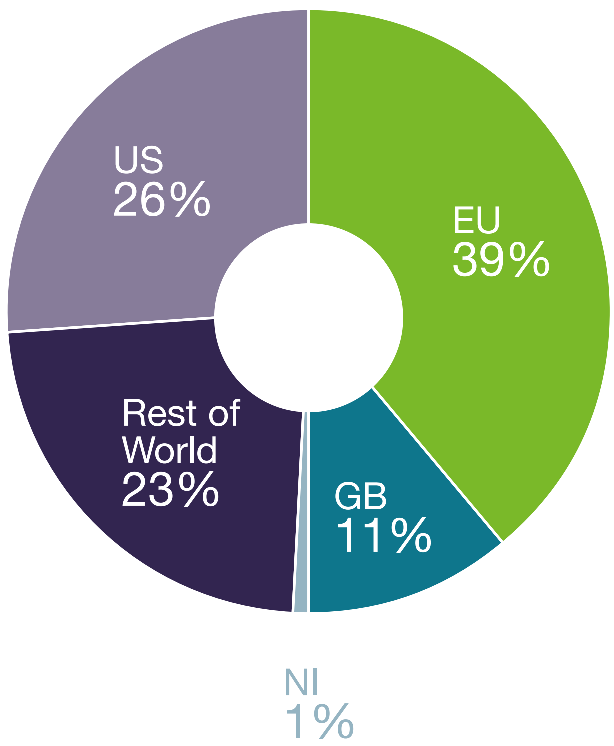
Services
Trade in services is already important as a driver of growth and employment in Ireland and has become increasingly so in Northern Ireland. However, the continuing creation of tradeable services employment in both jurisdictions will be heavily reliant on the free movement of people.

Capturing the true extent of tradeable services across the island is difficult. For example, NISRA's Broad Economy Sales and Export - Goods and Services Results 2015 (published May 2017) estimates that in 2015, the services sector in Northern Ireland exported £628mn of tradeable services to Ireland and this accounted for 40% of all service exports that year.

However, these estimates are based on an annual survey of about 20% of the eligible business population so the NISRA data may underestimate the true extent of service exports from Northern Ireland. Indeed 2017 HMRC data estimates that around £1.6bn/€1.95bn of tradeable services were provided from Northern Ireland to Ireland.

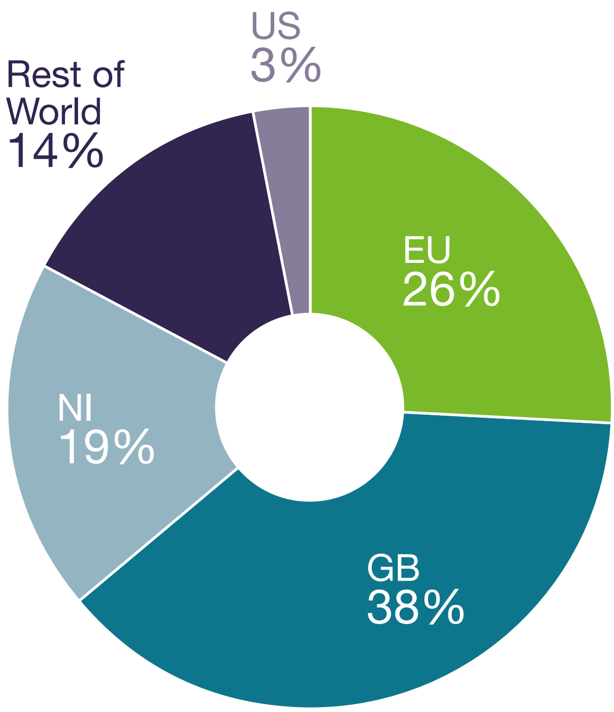
Historically the dominant sectors for this all-island service trade have included: tourism, agriculture, construction, transport and storage, ICT and other professional services.

Figure 15: Value share of Ireland's exports by destination, 2016



CSO (External Trade, 2017)

Figure 16: Volume share of Ireland's exports by destination, 2016



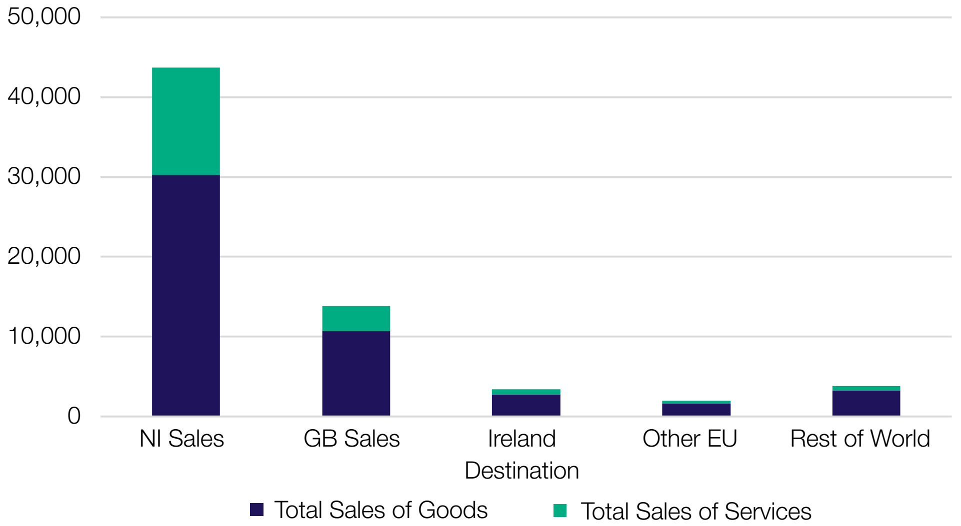
CSO (External Trade, 2017)

Northern Ireland trade flows to Ireland

NISRA statistics for 2015 estimate that total value of exports of goods and services from Northern Ireland amounted to £10bn. Recipients of those exports included: Ireland £3.6bn, Rest of EU £2.1bn and Rest of the World £3.9bn. Northern Ireland also sells £14.6bn to the GB market which is not classified as 'export' sales. Ireland is therefore the largest export market for Northern Ireland firms. NISRA estimates that in 2015 there were 8,400 Northern Ireland firms engaged in exporting and 88 per cent of those firms (7,392) were exporting to Ireland. For over two thirds of those businesses, Ireland is the only export market to which they sell.

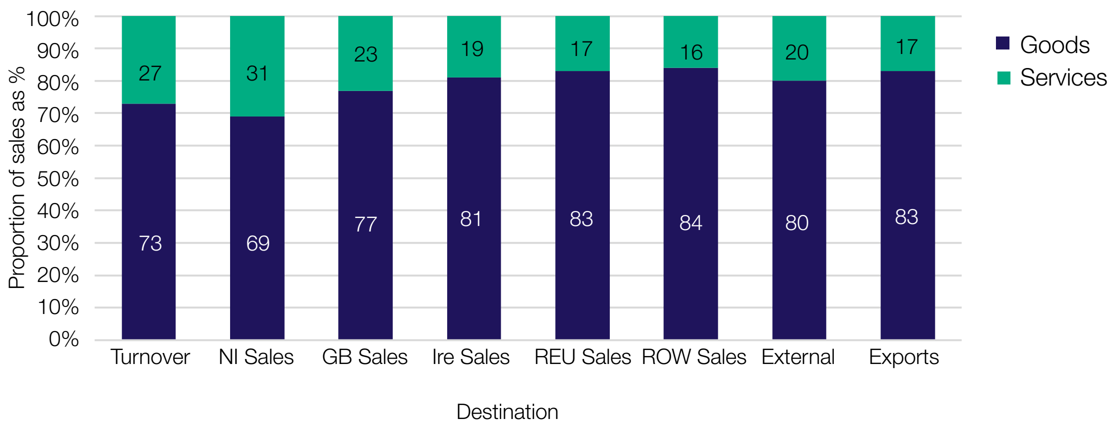
Data on trade flows from Northern Ireland to Ireland for goods and services is set out in Figures 17 and 18.

Figure 17: HMRC estimates of Northern Ireland to Ireland trade (£m)



Source: NISRA Broad Economy Sales and Exports Statistics (2017)

Figure 18: Goods and Services, as a proportion of Northern Ireland sales by destination in 2015



Source: NISRA (2017)

Northern Ireland imports from Ireland:
NISRA's Broad Economy Sales and Exports Survey estimates that in 2015 the total value of goods imported by Northern Ireland businesses from outside the UK amounted to £5.6bn. Ireland is the largest partner for Northern Ireland for this trade with imports of goods amounting to £1.7bn and imports of services amounting to £0.3bn (also in 2015). However, this estimate excludes imports for farming, fishing, tourism and financial services. Thus the overall level of imports is probably much greater than the official surveys suggest.

Dominant sectors in cross-border trade
Combined, 60% of this cross-border trade and business is in agri-food, chemicals and building materials. The deeply integrated nature of the agri-food sector on the island has resulted in the following trade flows:

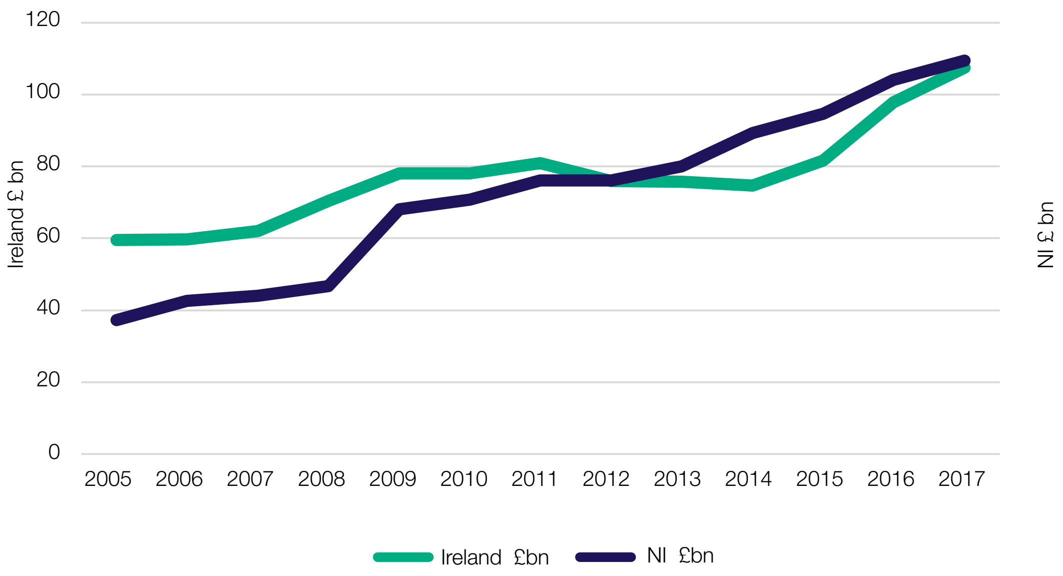
- 25% of the Northern Ireland milk pool goes to Ireland for processing.
- 5% of the milk processed in Northern Ireland is imported from Ireland.
- 36% of Northern Irish lamb is processed in Ireland.
- 50% of Northern Ireland milled flour goes to Ireland.
- More than 10,000 pigs are exported from Ireland to Northern Ireland every week.

Cross-border trade: Company type
The importance of cross border trade and business is greatest amongst SMEs and employment intensive indigenous sectors such as agri food. For example, NISRA export statistics show that in Northern Ireland 4,393 businesses who exported goods and services to Ireland in 2015 had fewer than 10 employees. Indeed, 7,148 NI businesses exporting to Ireland had less than 50 employees. For these companies, the potential benefits of expanding into another market across the border outweighed the obstacles and their costs.

Delays to these movements due to divergence in regulations and standards following new border controls will cause considerable 'friction' across the entire spectrum of commercial activity that takes place within the all-island economy.

Mutual benefit
Exporting from Northern Ireland into Ireland, or vice versa, is often regarded as a "first step" for many firms that are experimenting with exports for the first time. Indeed, micro businesses in both jurisdictions regard the neighbouring market with its geographical closeness, similar corporate governance, shared labour pool and easy access in terms of logistics, as a good 'starter' market for gaining export experience before beginning to trade with the rest of the world. Despite the huge differential in total export levels between the two jurisdictions it is worth noting that between 2005 and 2017 export growth in both saw strong proportional rises (as shown in Figure 19 below). Thus, it is reasonable to conclude that all-island trade is not at the expense of rest of the EU or 'Rest of World' trade; rather it is the beginning of a company's international trade journey.

Figure 19: Annual Goods Exports for Ireland and Northern Ireland



Source: Author's combination of CSO, FX Conversion Historical Data Central Bank Ireland and HMRC Regional Trade Statistics

2 (vi) All-island movement patterns

Movement of people
The scale of movement by individuals across the island's invisible border reflects the deep economic integration that has developed over the last 20 years resulting in significant all-island employment flows.

Given current growth levels and indications from recent measurement of the volume of vehicles crossing the border daily the much-quoted figure of 30,000 people crossing the border for work purposes, and not just employment, is likely to be underestimated, especially for the busier northwest and eastern regions.

Scale of cross-border movement
Cross-border movements by people are made for a variety of reasons that go beyond employment and include business meetings, trade, shopping, education, tourism, health, family and other reasons. Delays in processing any one of these types of crossings could have a knock-on effect on commuting and the movement of goods across the island, harming overall productivity. Official UK Office of National Statistics (2017) statistics demonstrate this:

- An estimated 110mn Northern Ireland to Ireland border crossings by people take place annually.
- In May 2017 there were on average an estimated 118,000 vehicle crossings daily on principal crossings alone (equivalent to 43mn vehicle crossings per year).
- It is estimated that for all crossing points that vehicle and HGVs crossings amount to 66mn per year.
- In 2016/17 it was estimated approximately 900,000 cross-border coach passenger journeys and 868,500 cross border rail passenger journeys are made annually.[14]

SME activity
Irish Revenue has noted a key business strand in these flows. They estimate that in addition to substantial numbers of commuters moving between jurisdictions each day there is also a significant number of sole traders and SMEs selling and providing services across the border on a regular basis. [15]

The data on the SME sector is unclear, but its scale can best be exemplified by the movement of light goods vehicles over the border. For the twelve routes (out of over 200) crossing the border that are designated in Ireland as National Roads there was 3,600 light goods vehicle crossings per day in either direction. This amounts to a total of about 1.3mn journeys by lights goods vehicles per year.

This economic activity for the SME sector has resulted from operating on an all-island and/or cross border basis over the last 20 years and has been greatly facilitated and supported by a largely barrier free and 'invisible' border.

Cost savings to business
It is possible to provide an estimate of the basic cost savings that have resulted by using the *UK Border Force Transparency Data*. It suggests the cost per passenger processed at the UK border in 2015/16 was £2.70/€3.29 per head.[16] Using this UK government estimate, not having to process people movement across the island's border (assuming only one person per vehicle) has saved a substantial sum of £300mn/€370mn per year or up to £7.5bn/€9.2bn since non-security related controls were removed.

This figure shows the scale of the potential extra cost of the re-imposition of an EU/UK land border. But of far greater economic impact would be the detrimental effect it would have on the all-island economy, as documented throughout this report.

Concerns for business
The sectors where the most intensive activity is occurring in the all-island economy are amongst those facing the highest risk of substantial disruption due to Brexit. In a worst-case scenario, the UK leaving the Customs Union and the Single Market will impose disruptive and potentially costly controls on the all-island economy and on the movement of people, goods and services that are essential to it.

Consequently, the practical impact for firms if any new EU/UK land border is created will depend upon the precise legal arrangements put in place to govern the future movement of people, goods and services.

14. Background Evidence on the Movement of People across the Northern Ireland –Ireland Border: Department for the Economy, Belfast, March 2018
15. https://www.revenue.ie/en/corporate/documents/research/ireland-uk-tax-and-customs-links.pdf
16. Home Office- Border Force 2017 https://www.gov.uk/government/publications/border-force-transparency-data-february-2017

At the time of completing this report negotiations are continuing between the EU and the UK to agree the precise details of the 'unique' arrangements that will meet the agreed goal of avoiding a costly, disruptive and damaging 'hard border'.

Potentially negative Brexit impacts

HMRC data for 2015 shows 69% of Northern Ireland's agri-food and 85% of its building materials exports went to Ireland. These sectors are deeply worried about the potentially negative impacts of Brexit. Issues causing concern include; the risk of undermining the island's food security and quality status; the imposition of tariffs and non-tariff barriers on cross-border movements due to divergence of regulations and standards; and significant new production, transport and packing costs.

In addition, the potential for long delays at crossing points that would disrupt integrated 'just in time' production logistics and distribution supply chains are also a major source of concern.

For business it is the Single Market that has created today's 'frictionless' border. Delays to these movements due to divergence in regulations and standards either resulting in or following new border controls will cause considerable 'friction' across the entire spectrum of commercial activity that takes place within the all-island economy.

For example, a company moving goods from Ireland through Northern Ireland ports to Great Britain commented, *"On a daily basis 45 lorries travel through Bridgend (Donegal) to the Lisahally Port (Derry) every day and others to Belfast for one contract. If controls were introduced, then the quickest time to process required documentation for such movements would be ten minutes and that would be exceptional; it could take half a day. For 60,000 tonnes that would involve 2,400 truck movements and at the record clearance time of ten minutes that would equate to 400 hrs. This would result in 40 idle days costing about €24,000 loss of earnings for the truck."*

Details of the unique solutions promised by government to tackle these challenges are still awaited but as this report highlights there is solid evidence of the potential cost disruption and consequent risk to firms, investment and employment in the all-island economy.

The 'hard border' of the past

The original barriers to doing cross border business go back to Partition in 1921. This 'hard border' consisted of just 17 'Approved Roads' for the legal movement of goods and people. The Boundary Posts for goods of Her Majesty's Customs (HMC) and those of the Irish Free State Customs and Excise, were positioned on these routes.

The respective Frontier Posts for people were also positioned along or at each end of these official crossing points. Along its 490km length that left more than 200 'unofficial', and so 'unapproved', roads for crossing the border without being processed as having formally left and then entered the adjoining jurisdiction.

Not surprisingly the illegal movement of goods, animals and peopled became endemic along the border. The low level of official trade suggests that even before the outbreak of violence in the late 1960s, illegal activity consistently exceeded legitimate trade.[17] This was the 'border of the past' for business that the EU and UK negotiators say they are committed to devising 'unique solutions' in order to avoid its return.

The invisible border of the present

For both jurisdictions EU and the Single Market membership have determined and governed how the 'invisible border' of the present operates. It is free flowing and frictionless for people, goods and services. A fundamental challenge for business is to change from this situation to the efficient and effective implementation of whatever unique arrangements are put in place to operate any new controls on the EU/UK land border.

The data presented in this section highlights the scale and complexity of the challenges that will be faced if these arrangements are to effectively govern movements of people, goods, services and capital across this island's EU/UK border. To do so will require consideration of the 300 or more crossing points comprising a rail track, roads of all sizes, foot bridges and gates in farmers' fields many of which are either recently re-established or entirely new.[18] This is without considering the digital border that will be created and is usually only visible when a mobile phone registers a change of network.

17. Even the fact that vehicles found to be travelling on unauthorised roads that should have been on authorised ones does not appear to have been a significant or effective deterrent. Nor indeed was the later and very much more intensive and extensive efforts of the British Army to close these roads for security reasons.
18. For example, driving the Clones-Cavan road will involve crossing the border four times in ten minutes.

Section Three All-island economy case studies

The concept of an 'all-island economy' encompassing Northern Ireland and Ireland is *"based on the island functioning as a natural economic zone, with both parts working together pragmatically at all levels and in all sectors (public and private) to whatever extent is to their mutual benefit, to add value to what they are doing"*.

Section Two presented evidence that there is significant added value to be secured from an all-island approach to doing business. This section will now examine the extent to which sectors or firms commit finance, operational resources and management time to pursuing an all-island business model.

As already highlighted, there are obstacles to combining data that would provide a joined up comprehensive picture of the all-island economy across all relevant enterprise sectors. This section is taking a different approach by presenting a small number of illustrative case studies.

Section Three (i) and *(ii)* describe how the tourism and electricity sectors operate on an all-island basis and as a result benefit from economies of scale that have positive spill-over effects into the rest of the economy. In Section Three (iii) companies from a selection of sectors and which are operating in the all-island economy outline the benefits of their all-island business models.

Key Findings

Market size
Companies on the island benefit from the scale provided by an all-island market for goods and services. It is a substantial commercial benefit for companies to almost seamlessly access a market of six and a half million people, rather than 1.8mn or 4.8mn people. Products can be manufactured in one jurisdiction and easily sold in the other. Existing sales, distribution, or management structures do not have to be duplicated. The scale provided by the larger all-island market means that companies can be more efficient about how they produce and distribute their products. This leads to better prospects for long-term growth and job creation.

Integrated supply chains

The inputs needed to manufacture goods are often sourced from different parts of the island. A single market on the island allows companies to source materials more effectively. Using inputs from either side of the border can be used as a hedge against exchange rate fluctuations. Moving inputs relies on highly efficient distribution and logistics networks that are currently enabled by an invisible border. This has allowed companies to produce goods and services more efficiently.

Pooled labour market

A major success of the all-island economy has been the integrated labour market that is now thriving. Access to a wider pool of talent has been one of the main benefits for companies, particularly to firms that are located in Northern Ireland. An all-island labour market offers greater flexibility for companies and the talent they recruit. They can choose to locate the roles where they are needed most, while also offering a broader choice of locations to prospective recruits. A continuous supply of labour and the ability to attract more labour is a key benefit of working on an all-island basis.

Post-Brexit impact on the all-island economy

Any restrictions on either the free movement of goods, services, or people throughout the island would have a detrimental impact on a vast number of businesses that have chosen to operate an all-island business model. Change to the current border arrangements would inevitably harm growth prospects for businesses in both jurisdictions. Hampering free movement would make it more difficult for companies to distribute goods and services and to recruit the right talent. It would also make the manufacturing of goods less efficient and possibly lead companies to make duplicative investments on both sides of the border. A distinct worry would be the imposition of customs or other checks that lead to delays. This would cause major difficulties for integrated 'just in time' manufacturing processes, which rely on products and inputs arriving as they are needed.

(i) Tourism

Tourism is a crucially important sector for the economies of both Northern Ireland and Ireland and is one of the island's most successful services sectors. While promoted and marketed at an all-island level, the benefits flow to local communities, businesses and service providers.

Tourism Ireland (established in 1999 following the Belfast / Good Friday Agreement) is an all-island body that is responsible for promoting the island of Ireland overseas as a leading tourism and holiday destination. It markets to the world iconic tourism experiences across the island such as the Wild Atlantic Way, Ireland's Ancient East, Titanic Belfast and the Causeway Coastal Route along with Dublin and Belfast as exciting cities to visit all year round.

Economic impact of tourism

Tourism is the island of Ireland's largest indigenous industry with approximately 10.5mn overseas visitors in 2016, delivering revenue of about €5.4bn/£4.53bn. This record performance is also enabled by historically low access costs and historically high numbers of direct flights to and from the island from unprecedented numbers of different destinations, mostly through Dublin Airport.

For example, one million visitors to Northern Ireland in 2015 arrived to the island through Dublin Airport and British-Irish visas for Asian tourists increased Chinese tourist visits to the Giant's Causeway by 75%. The depth of the all-island approach to this sector is evident from the fact that around 70 per cent of the 'off-island' visitors that come to Northern Ireland travel via Ireland.

Intra-island tourism

'Indigenous' visitors flowing across the invisible border are also important for tourism revenue. The CSO has estimated that in 2015 residents made 7.1mn trips outside of Ireland and of these around 333,700 trips were to Northern Ireland spending 856,000 nights there. It is estimated that based on these figures visitors to Northern Ireland from Ireland were worth £160mn to the economy. NISRA statistics from the Visitor Attraction Survey suggest that in 2016 there were 1.5mn visits made to Northern Ireland Visitor Attractions by visitors from Ireland (10% of all visitors to the attractions).

In 2016, Ireland received 1.4mn tourists from Northern Ireland. They accounted for 13.4% of total visitors and spent €376mn/£310mn which was 7.2% of total tourist revenue. The Border Region received the most visitors from Northern Ireland where they accounted for 45% of tourists and 30% of revenue.

Brexit Risk

Any restrictions on either the free movement throughout the all-island tourism market that tourists enjoy, or on the operation of Tourism Ireland, will affect travel plans and patterns as well as tourism promotion and revenues. All parts of the island are at risk, but it is most evident along the border and in Northern Ireland. However, in the short term, there has been an increase in the flow of visitors to Northern Ireland because of the weaker pound.

Case study

Titanic Belfast Ltd

Opened in 2012, Titanic Belfast was in 2016 voted the “World’s leading Tourist Attraction” – and has brought over 4mn visitors to the venue since opening. The attraction is regarded as an important catalyst for investment in local tourism and has contributed to the demand for new hotels to be built in Belfast City Centre.

All-island dimension

Titanic Belfast relies heavily on attracting tourists from Ireland, with 1 in every 4 visitors coming to the venue from Ireland. The company engages with the all-island economy through Tourism Ireland. Titanic Belfast works closely with Tourism NI in Ireland, and also proactively markets itself directly in the in Ireland. The company develops extensive campaigns throughout the year to reach visitors via points of entry and key touch points such as Dublin’s Connolly Station, Dublin Airport and on Irish buses. It also undertakes outdoor advertising, a digital ‘always-on’ campaign, partnership projects and employs a Dublin based PR agency. In addition, Titanic Belfast works with tour operators in Ireland to capture visitors coming on coach tours.

Proximity

The reason behind such marketing is to capture consumers from a larger market. For example, it is easier to attract coach trips from Dublin (a 2-hour coach journey away) rather than those in Scotland or England. Currently around 130,000 visitors per year come to the tourist attraction via the tour operators in Ireland. Proximity also allows Titanic Belfast to tap into the ‘day-tripper’ market as the company has benefited enormously from public holidays in Ireland.

Scale of Market

With a domestic population of 1.8mn, this ‘world-leading attraction’ is reliant on tapping into a much larger island and global market. In terms of scale, Dublin Airport is only 90 mins distance from Titanic Belfast. Throughput in Dublin Airport amounted to 27.9mn passengers in 2016, it serves around 180 routes with 41 airlines - therefore in terms of wide-reach, it makes sense for Titanic Belfast to target visitors (both Irish and international) that come via Ireland. Visitors from Ireland rose by 10% between 2016 and 2017 and the company has ambitions to grow levels further.

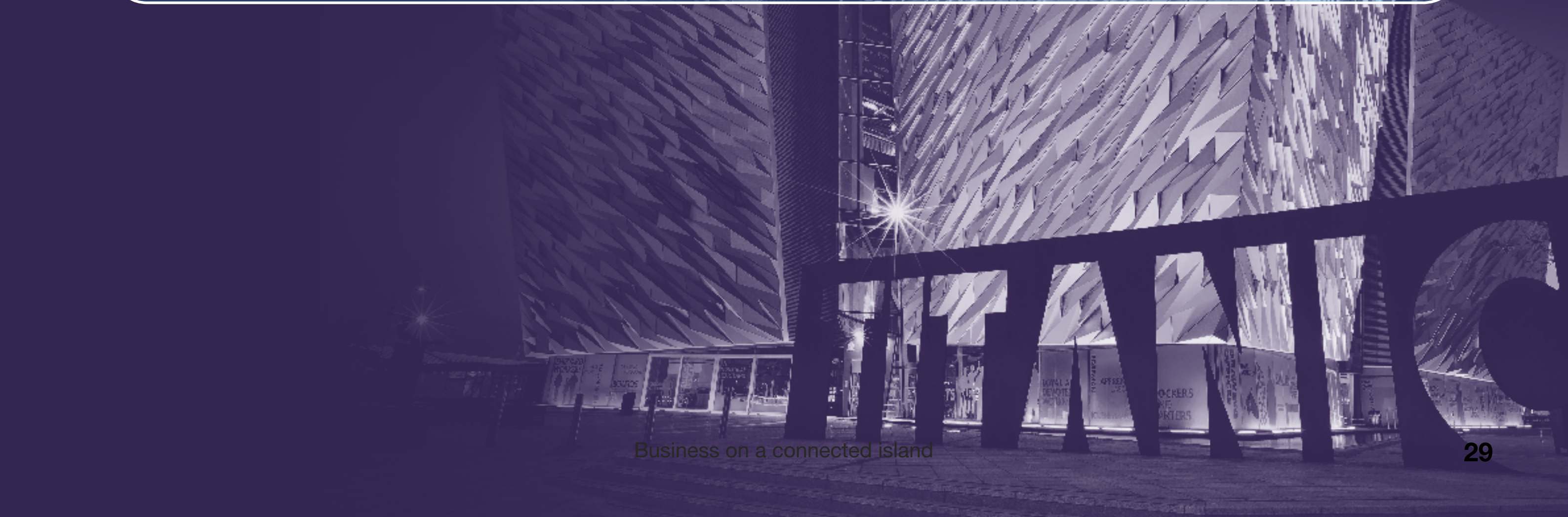
Commercial benefits

For Titanic Belfast, tapping into the all-island market for tourists makes commercial sense in terms of increased revenue and better return on investment. By encouraging visitors to stay more than one night by building itineraries and other attractions, the city and Northern Ireland benefit.

Current risks

The risks for Titanic Belfast arise from any disruption to the current invisible / frictionless border and what that would mean to visitor access. It was noted that many international tourists do not see Northern Ireland and Ireland as two countries; rather they regard the island as ‘one holiday destination’ and the easy transport flows between Dublin and Belfast lend to the current healthy levels of visitors. Any change to the current situation, any checks of passports at borders or security interruption to coach and car journeys would be considered a significant disruption to current levels of tourism trade.

Titanic Belfast also noted that it would become more difficult to engage with tour operators in Ireland. Complications arising from logistical barriers on the border or any other difficulties in terms of organising an itinerary would result in Irish tour operators favouring other destinations in Ireland rather than Belfast.



(ii) Electricity

Importance

The Single Electricity Market (SEM) is helping to underpin the security and competitiveness of electricity supply in both jurisdictions. Its successful development is a model for the benefits of all-island scale.

When designed and planned in the early 2000s, the SEM leveraged the scale from constructing more and newer climate friendly generating capacity to serve and supply the island's growing demands.

This market support system maximises cost effectiveness and security of energy supply and generating capacity. It is also a leader in the operation of cross border markets within the EU and has been a precursor of the EU Single Energy Market that is now being created.

The development by the EU of this Integrated Single Energy Market (I-SEM) is to encourage greater levels of security of supply and transparency as well as supporting price and cost competitiveness.

Following the construction of the new North/South Interconnector, the full operational efficiency of the SEM will be secured and support wider all-island energy needs such as:

- Ireland importing 90% of its oil products and 93% of its gas from the UK.
- Avoiding a black-out in NI spanning even one day and costing the economy £139.6mn.
- An all-island black-out spanning one day could cost up to £568.5mn.
- Imports from GB account for nearly 100% of NI's gas supply and 40% of Ireland's.
- Potential to generate 4.5 GW of electricity by wind power off the east coast.
- Constructing an interconnector with France across the Celtic Sea.

Risk

These developments are being planned to sustain economic growth and undertaking them will consolidate the SEM as a proven example of the benefits provided by an all-island economy of scale when designing, planning and delivering essential infrastructure. While Brexit-related developments may impact on these efforts, the UK Government in particular has given a number of assurances on the SEM's continued operation and planned evolution.

Case study

Integrated Single Electricity Market (I-SEM) – creating downward pressure on electricity costs for all users.

As highlighted in the previous section the Integrated Single Electricity Market (I-SEM) is the latest evolution in the wholesale electricity market arrangements for Ireland and Northern Ireland. Eirgrid/SONI, who are central to this development, explain its benefits:

It is a major undertaking for EirGrid and SONI that will result in downward pressure on the prices domestic, commercial and industrial consumers pay for electricity across the island of Ireland. While customers have benefited from the all-island Single Electricity Market (SEM) since 2007, I-SEM brings integration to a new level by adopting a model designed to integrate the market with its European counterparts. SEM is regulated by the SEM Committee and the market is run by the Single Electricity Market Operator (SEMO), a joint venture between EirGrid and SONI.

As a gross mandatory pool market, operating with dual currencies and in multiple jurisdictions, the SEM represented the first market of its kind in the world. Since its launch, it has provided a competitive, sustainable and reliable wholesale market in electricity that has delivered long-term economic and social benefits that are mutually advantageous to Northern Ireland and Ireland.

The new market arrangements are designed to integrate the all-island electricity market with European electricity markets, making optimal use of cross-border interconnection. Ireland is connected to Great Britain via the East West Interconnector, linking Dublin with North Wales, and the Moyle Interconnector linking Northern Ireland and Scotland.

The new market arrangements have been designed by the SEM Committee and are aimed at delivering increased levels of competition as well as encouraging improved levels of security of supply on the island. I-SEM will seek to generate maximum competition through concentrating trading in the day-ahead, intra-day and balancing markets. These short-term markets are directly linked to similar markets across Europe and will provide efficient and transparent prices.

The I-SEM arrangements are intended to:

- enable broad participation in energy markets,
- increase the opportunities for participants to trade in different time frames,
- provide participants with a variety of arbitrage and hedging opportunities,
- maximise the efficient use of interconnectors in system balancing,
- provide cost drivers for system balancing, and
- integrate balancing and system security actions with market operation.

I-SEM is due to go live in 2018. In preparation for this, the first Capacity Market auction was run in December 2017. The auction was designed to provide capacity for the period May 2018 to September 2019. The regulatory authorities have estimated that the auction process will result in savings to consumers of approximately €200mn across the island.

(iii) Companies

Deli Lites

Deli Lites is a Northern Ireland based company which started out as a small sandwich bar and has grown into a leading supplier of gourmet fresh food across the island of Ireland. Deli Lites supplies large retailers, airlines, trains, petrol stations, restaurants and has a network of coffee shops. The company can deliver artisan food to a customer anywhere on the island within hours of receiving an order.

The company set up just after the Good Friday / Belfast Agreement in 1998 and strategically located itself in Warrenpoint near the Newry/ Dundalk border so that it could take advantage of servicing both jurisdictions. As it is located on the border it is indifferent to a Dublin or Belfast delivery.

The company sells 70% of its output into the Irish market and 30% into Northern Ireland – with sales reflecting the population in both jurisdictions. It has set up two distribution hubs in Ireland – one in Dublin and one in Cork. The company has been growing by 20% in the few years up to 2015. In 2016 and 2017 turnover grew by 15% and 8% respectively. There are 230 employees with 160 employees identified as EU citizens.

All-island activities

Market size is an important factor for operating across the 'invisible' border. In addition, a significant proportion of the product inputs (food ingredients) as well as fuel for lorries are sourced in Ireland. For this reason, exchange rate risks from euro sales revenue can be offset by purchasing euro inputs. The Irish market for ingredients has become a natural hedge for the company.

Commercial benefits of the all-island economy

Being able to service a market with a population of 6.6 mn rather than the 1.8mn in Northern Ireland only is of substantial commercial benefit. The company also recognises that the spending power of households in the Irish market is much higher. Therefore, the sales capacity for high-value/artisan food is much greater. It was also noted that the Irish market is a better platform for launching new products and for trying new innovative products. The company also achieves distribution synergy when working on an all-island basis from being able to fully utilise their fleet of lorries and satellite vans.

Economies of scale

When the company works on an all-island basis and services the bigger market it can achieve economies of scale for production. Both production and distribution costs are lower when working on an all-island basis.
While the ability to deliver to 32 counties is a good selling point to customers; it also helps when talking to the bank and getting funding - as there is lower risk for the company when working in a bigger market. This larger market means that the company can provide the bank with a growth plan. The lower the business risk, the lower the cost of bank lending.

The larger market also means it is easier to attract better staff. For example, sales managers are keen to work in both jurisdictions (gaining experience in a much larger market) therefore the calibre of applicant tends to be higher. For logistics staff the same applies.

Risks

The current risks for the company include the potential for input prices to rise with the sharp depreciation of sterling and some opportunistic price increases for certain commodities. Customer demands are also growing with requests made for locally sourced / Irish ingredients rising. There is also a push from Bord Bia for companies to have an 'Irish Producer' label with a certain proportion of the product input being sourced in Ireland. This has forced customer prices upwards for some Deli Lites products.

In addition, customer inquiries about ability to supply if there was to be any border checks between Northern Ireland and Ireland in a post-Brexit world are a concern. Any non-tariff barriers that lead to delays and checks at the border would have an impact upon delivery times and competitiveness. 'Time to market' is very important in the fresh food industry and is currently part of the competitive offering. In addition, any administrative burden or bureaucracy stemming from non-tariff barriers (such as certification or quotas) that could be pushed on to the firm to avoid border checks would also significantly increase costs and reduce competitiveness. Finally, any introduction of tariffs post-Brexit would do huge damage to the company – especially when tariffs under WTO structures are highest for food.

Capital Investment

The company is considering opening production facilities in Ireland to satisfy customer requests around future supply. The biggest issue in a post-Brexit world will be the movement of fresh produce and tariffs. The firm needs to take products across the border every evening and they need to bring in inputs from Ireland on a daily basis. This is a low margin business so any addition to costs from tariffs would be critical.

Coca-Cola Hellenic Bottling Company (CCHBC) Ireland Limited & CCHBC Northern Ireland Limited

Together, Coca-Cola Hellenic Bottling Company (CCHBC) Ireland Limited & CCHBC Northern Ireland Limited is an authorised bottler of The Coca-Cola Company, with an assigned territory of the island of Ireland. Our company has operated on an all-island basis since the operations and management of the Northern Ireland and Ireland bottling were combined in 2007 to form a single business unit.

In 2008, production for the island of Ireland was consolidated at a new state of the art bottling plant in Knockmore Hill, Lisburn, Co. Antrim. Today, it is our single site of both production and warehousing for the island of Ireland. As a result:

- 97% of CCHBC products sold on the island are manufactured there.
- Approximately two thirds of those products are moved to and sold in Ireland.
- Approximately 80% of our raw materials are sourced from Ireland and the rest of the EU, and about 20% from the UK.
- Combined with the shipments of finished products, we have almost 14,000 border crossings involving goods or materials each year (about 38 each day).

In addition, many of our staff members have island of Ireland-focused roles and divide their time between our Dublin and Lisburn offices. For this reason, free movement of people across the border is important to our all-island business model.

Benefits of the all-island business model
Based on the positive experience of working on an all-island basis, the three most important operational and/or commercial benefits of operating an all-island business model could be summarised as being:

1. **Supply Chain efficiencies:** Being able to have one modern, highly efficient plant, together with one logistics network for the entire island brings the biggest and most important benefit to our business unit.
2. **Customer base/Commercial benefit:** Given the number of shared customers across the island, being able to manage these through one shared Key Accounts and commercial and supply chain team resulting in synergies and efficiencies to us and to our customers.
3. **Access to a wide diverse pool of talent** with flexibility on where we locate the roles within our business enables us to recruit the best people.

In addition to enhanced competitiveness the all-island business model is delivering key cost savings in the production elements of our business. The main driver is one plant and one logistics network serving the island with capacity to grow and scale our business to the size of its entire population.

This allows us to put investment into other areas to drive the business. For example, Coca-Cola HBC has the largest sales force across the island of Ireland, who work to drive our business, while adding value to our customers and our consumers above and beyond the competition.

To maintain current operating strengths and in planning future growth, our business model is critically reliant on the free movement of goods, people and money across the border. Our governments must successfully negotiate for a frictionless border that supports North/South and East/West trade recognising the island of Ireland's unique geography and our shared history.

Opportunities for growth
Looking to the future, while the island of Ireland is a mature market for us, we still see lots of opportunity to grow and respond to our changing consumer needs. We see these opportunities as:

1. A business that grows and nurtures talent that we can export to CCHBC Group.
2. A Champion for Innovation across the island. With our agile and dynamic approach, we work to pilot new products and ways of doing business, sharing learning with other countries in our Group.
3. A source of sustainable revenue and profit for our CCHBC Group.

Our governments need to invest to support the vision for population expansion to 10mn people across the island of Ireland. Meanwhile, we will continue to invest across the island to grow our business as long as Ireland and Northern Ireland remain countries where it is easy to do business.

Allstate

Allstate is a global insurance company with over 60,000 employees world-wide. It operates from three sites in Northern Ireland (L/Derry, Strabane and Belfast) which are all focused on IT support, software writing and programming for internal Allstate global operations. The company employs approximately 2,200 employees in Northern Ireland. Allstate's two operations in the North West are highly dependent on accessing labour from Ireland - with approximately 15 per cent of staff in the North West crossing the border from Ireland to work.

All-island dimension
Supply of labour is the key benefit of working on an all-island basis. With a population of only 1.8mn in Northern Ireland and a shortage of workers in the IT sector, the ability to attract workers from Ireland is essential for Allstate's business model in Northern Ireland. Allstate is one of the biggest employers in the North West and could not operate without access to labour in neighbouring counties.

The Allstate group gets a better return on its Northern Ireland investment if the NI operations can tap into a wider pool of talent across the entire island. A continued supply of labour and the ability to attract labour in a highly competitive sector relies on the promise of job stability. The company would find it more difficult to adhere to its business model and growth plan if there were any barriers to cross-border workers. In addition, these workers tend to be highly mobile. Any post-Brexit barriers to work in Northern Ireland may result in the loss of access to the deep pool of talent Allstate requires.

This would leave Allstate and others unable to compete with international competition if the skills pipeline was broken. Northern Ireland is a competitive location for building new facilities. However, investment would not make sense if there was not an appropriate supply of labour.

Capital Investment
For Allstate upgrading the road from Derry/Londonderry to Strabane is urgently needed. Although the Department of Infrastructure announced in Nov 2017 its decision to proceed in early 2018, the work has not yet started. In addition, suitable broadband infrastructure is needed in any economy where more and more staff choose to work from home. But in order to do so, they need dependable, high-speed broadband connectivity.

Conclusions

This report concludes that to protect and sustain the business that is taking place on a connected all-island basis, policy makers with a direct responsibility for doing so must act on the evidence that:

1. **Today's combined population of 6.6mn in Ireland and Northern Ireland creates an attractive proposition to investors who seek value from increased market scale.** Firms benefit from economies of scale by working on an all-island basis to reduce the cost of an average unit of production and to be more competitive. Examples include the 350,000 lambs transported from Northern Ireland to Ireland, 500,000 pigs brought the other way and millions of litres of milk travel in both directions each year for processing to be more efficient and cost-effective.

2. **Companies in many different sectors and of all sizes can see clear gains from being able to operate in this barrier free all-island economy.** To varying degrees, they benefit from the resulting scale, proximity and accessibility opportunities in production, supply, investment and employment. Examples include SMEs that grow by simply 'expanding across the border', companies that gain by accessing more competitive suppliers, a larger talent pool for labour and/or more sales opportunities thereby generating additional growth in overall business and employment.

3. **The gains still to be realised in Ireland and Northern Ireland from the all-island economy must be protected.** Some sectors such as agri-food, energy and tourism have deeply integrated operations. In these sectors, firms tend to be smaller and more labour intensive. While protecting their businesses is crucial to the economy, other sectors display less developed cross-border synergies that hold great potential. These sectors are as diverse as transport, health services, education and waste management, all of which will be essential to support a prosperous island of 10mn people.

4. **There are potentially significant negative impacts for the all-island economy as a result of the UK leaving the European Union.** The all-island economy operates across an invisible border for investment, recruitment, production, supply chains, R&D collaboration, marketing and much more. Food production, energy and tourism are amongst the elements of the all-island economy whose operations currently face significant risks. This report presents evidence on why future EU/UK arrangements and relationships must enable the all-island economy to sustain the prosperity that is helping to embed peace and protect the Belfast /Good Friday Agreement.

Recommendations

Based on the evidence set out in this report the following key recommendations are made to protect the investment made by business in the connected island in the lead up to and following the UK exit from the EU:

- **A collective response is required for future growth**
  Government must engage further with business to design the detailed, innovative and workable solutions needed to protect and build on the benefits of the all-island economy and ensure its future development is not hampered in any way.

- **Infrastructure provision key to future growth**
  Both jurisdictions need to make significant investments in infrastructure to support the economic gains and opportunities identified in this report. In Ireland this has begun in earnest – now it requires the speedy implementation of the National Planning Framework (NPF) and National Development Plan (NDP) including its all-island priorities. Northern Ireland's Regional Development Strategy 2035 published back in 2010 requires immediate updating and equally rapid progress is needed to deliver essential infrastructure investment in the short and longer term. Failure to do so will result in increasingly chronic infrastructure deficits that negatively impact on competiveness and the quality of people's lives.

- **Ensuring future skills needs are met**
  This is a shared objective for economic growth, business development and attracting future investment. Previous collaboration by the Expert Group on Future Skills in Ireland and the NI Skills Expert Group should be built upon to provide the evidence to underpin policies that will deliver the necessary workforce and provide a greater understanding of skills demand across the island. Obviously any imbalance across the island in terms of the supply of future skills would have a detrimental impact on the overall goal of having a prosperous island of 10mn people.

- **All-island economic activity should be better measured**
  There is a need to enhance significantly the reach and scope of official data that identifies all-island economic activity. Whether this is carried out through the designated statistical bodies on each side of the border, or through InterTradeIreland, it would provide a more complete and illuminating picture of the synergies that exist across both jurisdictions on the island. Amongst the most urgent requirements is to have data on the all-island market in services to track the rapid growth for which there is persuasive anecdotal insights but a lack of official statistics to provide a sound evidence base.

Background information about Ibec, CBI and the JBC

Ibec

Ibec is Ireland's largest lobby group representing Irish business both domestically and internationally. Its membership is home grown, multinational, big and small, spanning every sector of the economy. Together they employ over 70% of the private sector workforce in Ireland. Ibec and its trade associations lobby government, policy makers and other key stakeholders nationally and internationally to shape business conditions and drive economic growth. It has over 230 professional services staff in seven locations including Brussels and has 42 different trade associations in the group

CBI

The CBI is a confederation of 140 trade associations, alongside larger and medium-sized businesses who tend to join the CBI directly. Together our 190,000 members employ nearly 7 million people, about one third of the private sector-employed workforce. With 13 offices around the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world. The CBI in Northern Ireland represents firms in all sectors and the membership base includes two thirds of the Top 100 companies.

JBC

The IBEC-CBI Joint Business Council (JBC) was formed in 1991 and works to promote an optimal business environment on the island and advance competitiveness for the benefit of both jurisdictions working in collaboration with its member companies and strategic partners.

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