Ibec
For Irish Business

# Ireland in the EU: A dynamic future

The priorities of Irish business for the Future of Europe

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**“Ireland’s destiny rests at the heart of an outward looking, dynamic and successful EU. Now is the time to shape that future together.”**

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## Executive summary

# Ireland in the EU: A dynamic future

**In 50 years Ireland has moved from being an inward-looking, protectionist economy to a highly competitive, innovative, globalised hub. The economy provides its citizens with quality jobs and supports high living standards. EU membership has been central to this journey.**

The EU has provided a platform for greater opportunities to trade, attract investment, foster a skilled and flexible workforce and develop a fair and competitive tax regime. A key benefit has been the opportunity to work and live across the EU, a right enjoyed by Irish citizens as well as EU nationals we have welcomed to our communities. Ireland has embraced the opportunities of Europe and, in turn, Europe has benefitted from Ireland's contribution.

Ireland's success is Europe's success. Our pro-business environment has attracted companies from around the world and provides a springboard for global businesses into EU markets. Our economy is an integral part of Europe's innovative ecosystem in sectors such as food and drink, computer and communications technology, financial and retail services, pharmaceuticals and medical devices.

Our experience shows us that Ireland's future success rests at the heart of an outward-looking, innovative and prosperous EU. The Future of Europe debate is a fresh opportunity to shape that future and identify how, together, we can work towards shared objectives.

Despite all its challenges, the EU remains a model of global success. Now is not the time for a major change in direction and now is not the time to be distracted by a protracted debate about the constitutional architecture of Europe. Instead we must use the institutions we have to effectively deliver a better, more prosperous future for all our citizens.

The EU must focus on positive reform. We need greater cooperation in areas where there is a clear collective benefit and where the EU can deliver added value. This includes completing the single market, digitalisation and global trade. It means championing innovation across all sectors of the economy, and ensuring that competitiveness is harnessed, not hampered through EU policy.

It also means less integration in areas where member states are best placed to act. In areas such as taxation, labour market and social legislation, individual governments can tailor policy to domestic needs and political preferences.

This paper sets out the positive vision of Irish business for the Future of Europe and identifies detailed and constructive priorities across a range of key policy areas.

Let's have the conversation.

**Danny McCoy**
**Ibec CEO**

## "The Future of Europe debate is a fresh opportunity to shape our future together. Let's have the conversation."

# Six priorities for the Future of Europe

## 1. Unleash the potential of the Single Market and digitalisation

The EU has created vast new opportunities for business, but there's much more to do. The EU must prioritise the deepening of the single market, including completing the digital single market, the capital markets union and the banking union. By focusing on these 'big-wins', the EU can create massive new economic opportunities,drive growth, promote innovation, create jobs and raise the living standards of citizens across Europe.

## 2. Lead the world in trade and investment

The EU must strengthen its role as a global economic leader. The EU should continue to advance ambitious, balanced trade deals with key partners. This should include a comprehensive and ambitious future trading relationship with the UK, as well as advancing and implementing deeper trading and investment partnerships with the US, Canada and Japan. Trade policy should be designed for the 21st century, facilitating cross-border data flows and unlocking the potential of EU business in a digitalised world.

## 3. Embrace competitive taxation policy

The EU must support companies, economies and member states as they strive to compete effectively, grow and prosper. We need dynamic, competitive markets across the EU and the EU needs to be able to compete and win internationally. For this to happen, member states must have the power to choose tax strategies that meet their economic needs.

## 4. Respect member state competency to design labour market and social policy

The EU should focus on its core competencies and objectives, and avoid legislating in areas where member states are better placed to act. In key areas of social policy, for example, local labour market needs mean that decisions should be left to national governments.

## 5. Champion Better Regulation

Poorly designed policy, legislation and regulation add to the cost of doing business and are obstacles to job creation, growth and prosperity. This can be remedied through the Commission's continued commitment to the Better Regulation agenda, promoting better and more effective legislation as a long-term commitment across EU institutions. EU regulations should be developed in conjunction with national representatives, business organisations and civil society, so those at the coal-face can advise on the most suitable policy framework. EU regulation should harness innovation, not hamper it.

## 6. Ensure fiscal rules are in tune with all member states

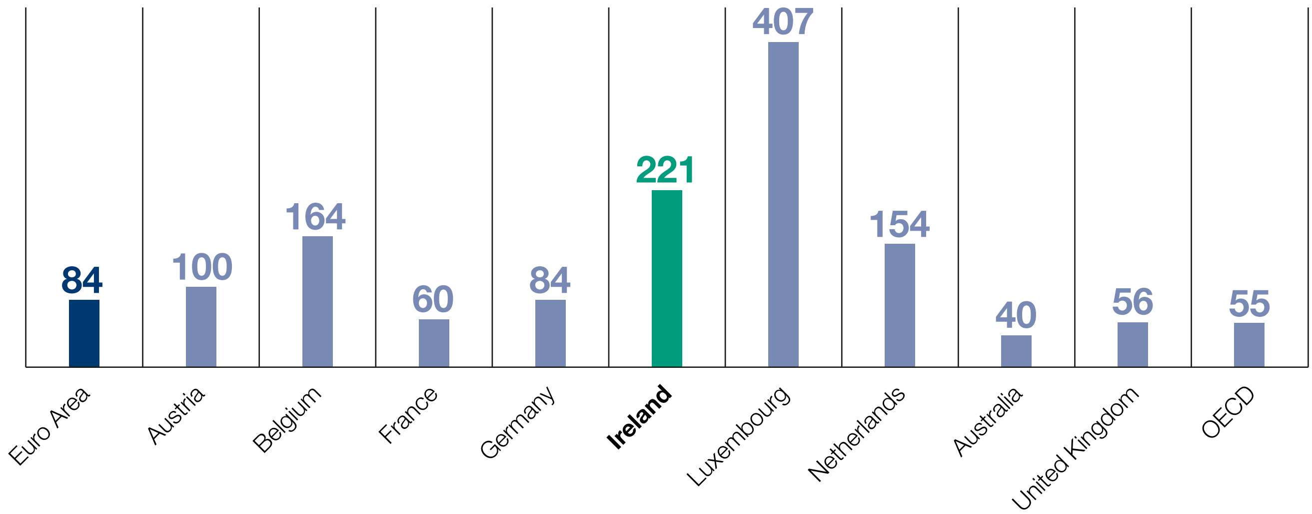
At any point in time, the economic needs of different member states may be very different. As such, the need for flexibility needs to be recognised in both the creation and application of EU fiscal rules. For example, affording flexibility under fiscal rules and the Stability and Growth Pact would allow Ireland an opportunity to invest in growth-enabling infrastructure developments, while also ensuring fiscal responsibility.

# Ireland and the EU: 45 years of cooperation

## EU membership has helped Ireland build an open and resilient economy

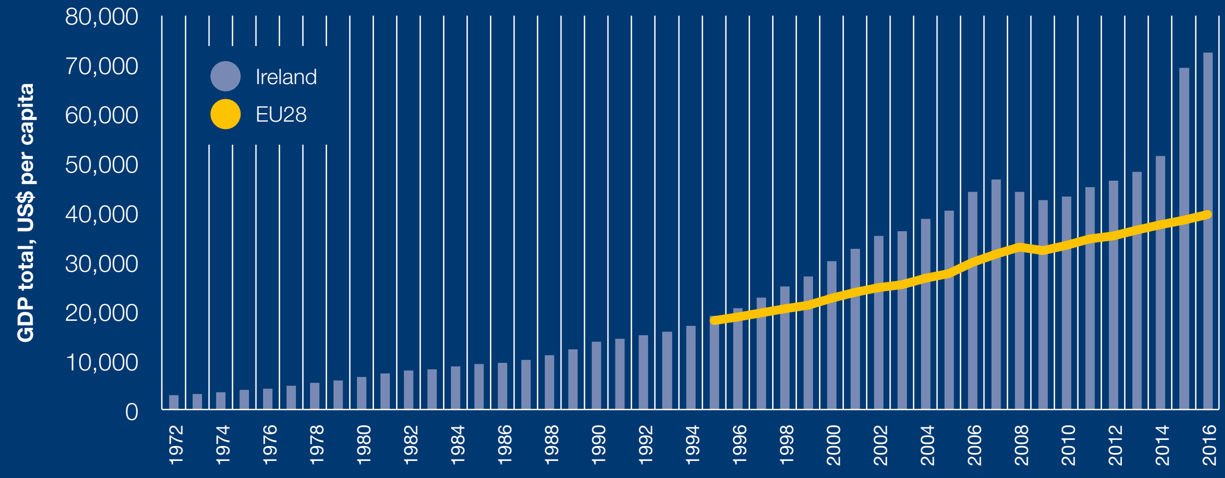
- As a member of the EU, Irish businesses enjoy unfettered access to the world's largest single market with a population of 512 million (446 without the UK) in 2017;
- Irish citizens can work and live freely in any other EU member state, likewise Irish companies benefit from employing citizens from other EU member states to bolster our workforce and increase our talent pool. In April 2016, non-Irish nationals accounted for 14.9% of the workforce in Ireland;
- Membership of the common currency area has meant that Irish businesses no longer have to worry about fluctuating currencies when trading with other eurozone members;
- Trading in the EU bloc gives Ireland a bigger presence in global markets – Irish exports of goods increased from €1.1bn in 1973 to €119.5bn in 2016;
- EU spending in Ireland has assisted in the development of key public infrastructure projects such as national motorways and urban regeneration programmes;
- Irish farmers have benefited from over €54bn in Common Agricultural Policy (CAP) funding between 1973 and 2013, with a further €10.7bn projected to be spent in current period of 2014-2020.

Trade (% of GDP)




*Source:World Bank database*

## Ireland's receipts from and contributions to the EU budget




*Source: OECD (2018)*

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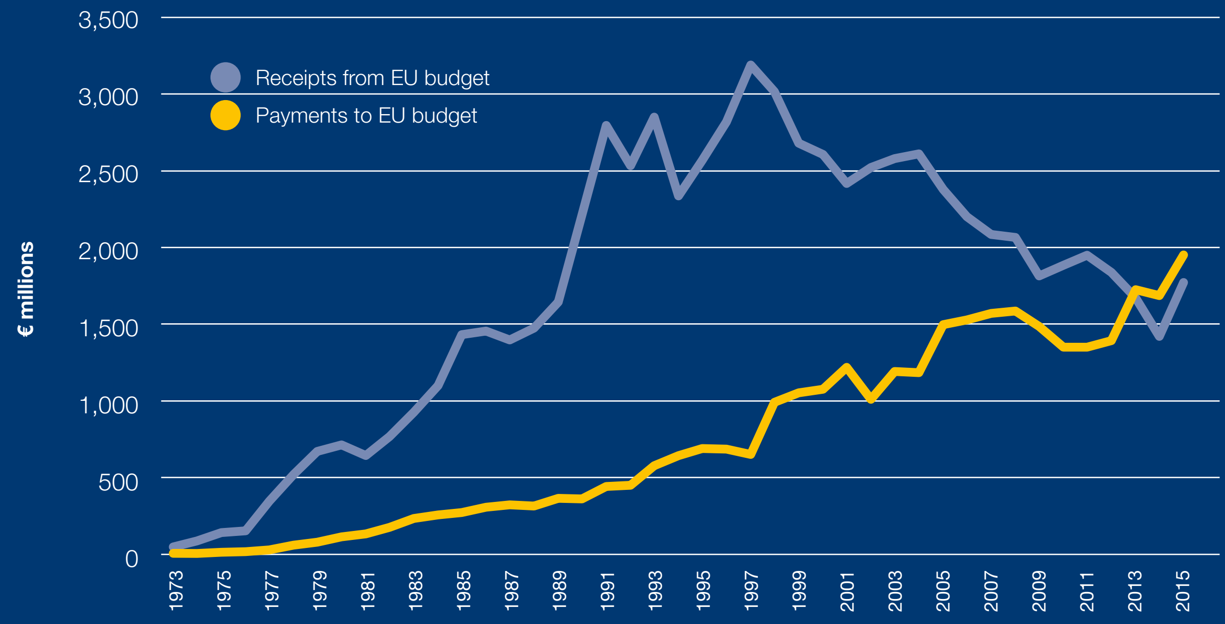
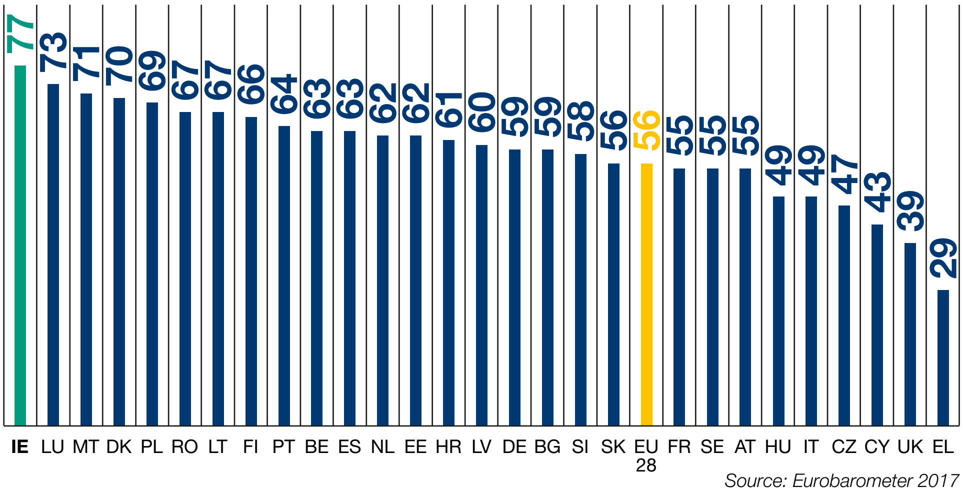



*Source: Department of Finance*

## Ireland has seen a substantial rise in both national and personal incomes since joining the EU

- GDP per capita in Ireland has grown substantially since joining the EU reaching €53,600 per year in 2016;
- Ireland's level of income transformed from one of the lowest to among the top three both by EU and OECD standards;
- Ireland's openness to trade and investment both within and outside the EU has contributed to this growth.

### Citizen optimism about the future of the EU




*Source: Eurobarometer 2017*

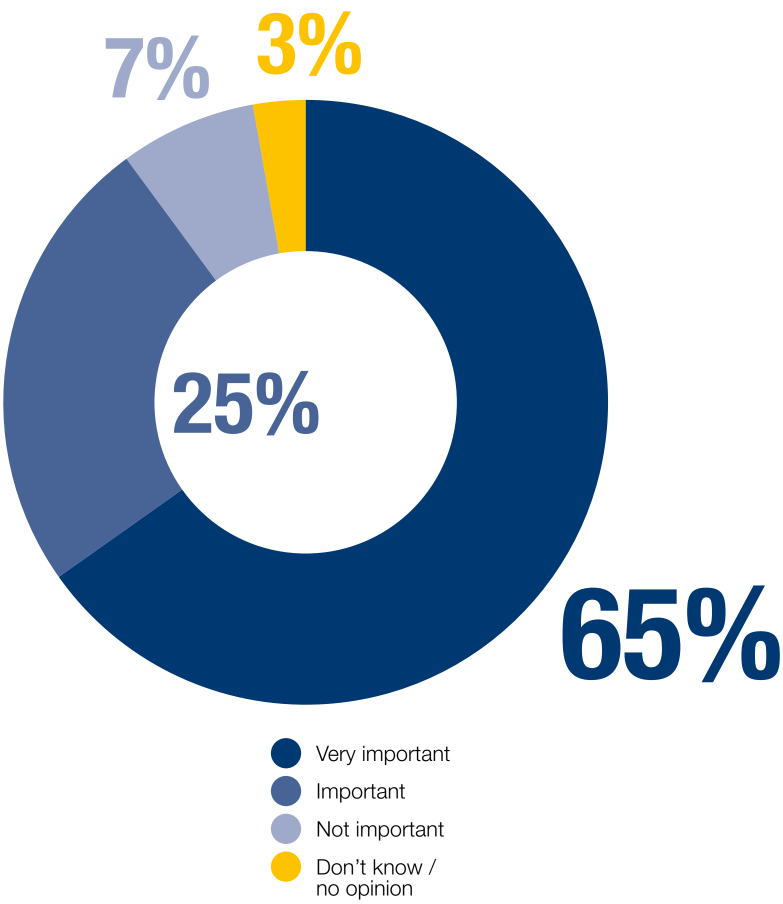
**77%** **of Irish citizens are optimistic about the future of the EU**

> "Access to the single market, membership of a global trading bloc and sharing a common currency are among the many benefits which makes EU membership priceless."

Ireland and Irish citizens are big supporters of the European project, with the most recent Eurobarometer survey ranking us first among member states in our optimism for the EU. Ibec too has been a keen proponent of the EU and the opportunities it has offered to Irish businesses. Policies such as the single market, the digital single market and our shared common currency have afforded many opportunities to Irish businesses and simplified trade and investment with our EU partners. Ibec believes that these elements lay the right foundations for a prosperous and sustainable union, and it is these elements which the EU should continue to champion into the future.

**90%** **of Ibec members believe future membership of the EU will be important for their business**

## The importance of EU membership to Irish business




*Source: Ibec member survey, 2018*

# Ibec priorities for the Future of Europe

## The business way forward

# Ensuring innovation is at the heart of EU competitiveness and policy-making

Innovation is a central principle underpinning the success and prosperity of the EU, especially the single market. We believe that all EU policies should be designed with the innovation principle at their core, meaning that whenever policy is developed, the impact on innovation is fully assessed. The principle should be applied by policy-makers and legislators to ensure that any new policies and laws help to foster and facilitate innovation rather than hamper it. Application of the innovation principle throughout the policy process would help the EU develop a regulatory and legislative environment which supports technological innovation, job creation and economic prosperity thereby boosting competitiveness and growth. The innovation principle would ensure that new ideas are stimulated, not stifled, and that the EU provides a suitable environment for the development of ideas which bring economic and societal benefits.

> “Innovation should be at the core of all EU policy-making, while also ensuring the full application of the proportionality and subsidiarity principles.”

# Subsidiarity and proportionality – getting the balance right

The principles of subsidiarity and proportionality govern the exercise of the EU's competences. Understanding these principles and applying them properly is essential if the EU is to achieve its full potential both collectively and at member state level. The principles are laid out in Article 5 of the Treaty of the Functioning of the EU, and Ibec believes that any future treaty changes, as well as the next legislative cycle of the European Commission and Parliament, should uphold these important principles and ensure they are respected through the policy cycle.

**In areas in which the EU does not have exclusive competence, the principle of subsidiarity seeks to safeguard the ability of the member states to make decisions and to act. It authorises intervention by the EU when the objectives of an action cannot be sufficiently achieved by the member states and would benefit from EU level intervention.**

**The principle of proportionality regulates the exercise of powers by the EU. It seeks to set actions taken by EU institutions within specified parameters. Under this rule, the action of the EU must be limited to what is necessary to achieve the objectives of the Treaties. In other words, the content and form of the action must be in keeping with the aim pursued.**

Ibec welcomes the recent establishment of the **Taskforce on Subsidiarity and Proportionality** following President Juncker's proposal in his September 2017 State of the EU address. The mandate of the taskforce is to identify policy areas where work could be developed by, or returned to member states, ensuring that EU legislation is underpinned by the concept of 'doing less more efficiently'. The Taskforce is chaired by Commission First Vice-President Frans Timmermans and is made up of nine politicians from member state Parliaments, the Committee of the Regions, and the European Parliament. This is an important initiative and should frame the EU's policy-making process going forward.

The distribution of legislative responsibility between the member states and the EU is a critical issue for Irish business and our partners across Europe. Ibec therefore calls on the Taskforce to engage with business in order to fully understand the potential impact of regulation on economic growth when preparing its report for the Commission, due to be delivered to the Council by mid-summer. It is critical for future economic development that issues of member state sovereignty are fully respected, and intervention by the EU is clearly linked to guiding principles of an EU that 'adds real value' and that 'is more efficient' as outlined in greater detail in this Ibec document. Based on these principles, we encourage the Commission to maintain this momentum and utilise the taskforce across all policy areas going forward.

# An EU that unleashes the potential of the single market and digitalisation

**The EU must prioritise the deepening of the single market, including completing the digital single market, capital markets union and banking union. By focusing on these 'big-win' areas, the EU develops a framework which allows for economic growth, job creation, and fundamentally, a rise in living standards for our citizens.**

To unleash the true value of the single market and harness digitalisation, the EU should:

- Deepen the **single market** and ensure that it remains a key pillar and focus area of EU activities, broaden it to new sectors of the economy and better implement and enforce existing rules to allow for further generation of growth and employment. Ensure that Brexit is a catalyst for renewed efforts to complete the single market and that progress to date does not slip despite current challenges. Studies have shown that fully delivering the single market could increase EU GDP by up to €615bn per year;
- Prioritise the completion of a **digital single market** that secures trust through smart regulation, ensures the free flow of data, attracts mobile digital talent and investment; promotes the development of digital skills; and encourages digital entrepreneurship and continued investment in digital infrastructure and innovation;

- Complete the **economic and monetary union**, building on progress made in the aftermath of the economic crisis and ensuring that momentum continues at a steady rate. Too many member states remain reluctant to implement agreed country specific reforms as part of the European Semester process, the Commission should reinvigorate this process if the European economy is to be adequately protected from future external shocks;
- Strengthen the long-term stability of the EMU and its ability to handle asymmetric shocks by providing support to European economies through a **euro area stabilisation fund**. This should not increase the overall tax burden, but the Commission should commit to ensuring the function is rapid and temporary. Such a stabilisation fund should be tied with investment, ensuring that member states are not forced to row back on essential infrastructure projects in times of economic uncertainty;
- Revitalise the **capital markets union** agenda which will allow the EU economy to benefit from greater diversity of access to business finance, and allow for greater job creation for SMEs. A complete CMU will also allow the EU to channel finance to smaller countries and regions of the EU, distributing risk and helping to prevent future economic shocks. Moreover, with a large portion of the EU's capital markets activity, expertise and capacity in the UK, the implications of Brexit are likely to have a profound impact on the timeline and success of the CMU. EU leaders should remain committed to this project and ensure that Brexit does not affect momentum;
- Secure an effective and fully-functioning **banking union** that serves the needs of large and small business. This should include the rapid agreement and implementation of an EU deposit insurance scheme, alongside the existing supervision and resolution pillars which are needed to address the ongoing fragmentation of EU savings and credit markets. More integrated cross-border banking will increase financial stability and competition in the banking sector, which in turn will lead to an improvement in the availability of finance for firms to invest, innovate and create employment;
- Improve efficiency of the fiscal rules while allowing for member state flexibility. Fully implement the **Stability and Growth Pact**, drawing on in-built flexibility to ensure member states have the tools available to ensure sustainability of their public finances;
- Exercise caution when it comes to consolidation of eurozone debt through the proposed system of **euro bonds**. Having such a joint European debt instrument would mean that budgetary authority is transferred from national to EU level, a move which we believe could ultimately prove detrimental to the EU given the wide range of social systems, tax regimes and labour market realities. We are also concerned that a euro bonds system could be tied with strict conditionalities which could be difficult to justify across a union with so many diverse economic realities.

# An EU Industrial Strategy fit for the Digital Age

The new Industrial Policy Strategy launched by the Commission must deliver on its plans for a smarter, sustainable and more innovative EU industrial sector. The strategy aims to bring together all new and existing horizontal strategies and sector-specific initiatives into a comprehensive framework which aims at “empowering industries to continue delivering sustainable growth and jobs” for European regions and cities.

This renewed EU commitment to industrial policy must be framed in the global context in which industry operates today. The EU needs a modern, forward-looking industrial strategy focused on global competitiveness and equipping companies to meet the challenges of the 21st century. European industry is no longer solely typified by industries such as coal and steel, but rather by entrepreneurs and innovators who have the skills to harness new technologies and succeed in a digitally-integrated world. A more modern approach to industrial policy is particularly important for Irish business with our competitive strength in high-technology intensive manufacturing and export. EU industrial strategy needs to better support modern manufacturing, ensuring that technology-powered and digital industry is also given the policy tools to bolster competitiveness. For EU industrial success today and in the future, data mining is more important than coal mining. It is vital that EU policy supports cross-border data flows.

Ibec supports an integrated approach. Contemporary industry cannot be separated from the many other aspects of the EU such as the single market, capital markets union, the circular economy, cyber security, free movement of data, intellectual property framework, etc. However, to ensure competitiveness, it is vital that EU industrial strategy is not adversely impacted by legislation or regulatory requirements in other areas. In developing regulatory frameworks and legislation, the innovation principle must be at the core of EU policy-making, ensuring that innovation is stimulated, not stifled in European industry.

A strong industrial base at regional level is also essential for EU competitiveness. The EU must deliver on its stated aim to “revitalise regions and have the best technologies for the smart, clean and innovative industry of the future”. The importance of industry to our regions must be a central feature of EU industrial policy into the future. Well-designed EU industrial policy can be an important supportive tool to ensure rural communities also reap the benefits of strong economic growth. Ireland has many examples of how manufacturers make an important contribution to rural economies through job creation and supporting communities at regional level. To encourage such activity in other regions and across member states, EU industrial policy should facilitate industrial clusters whereby complementary sectors are given the support and framework in which to develop in close geographical proximity. The facilitation of industrial cluster growth, through a dynamic industrial strategy will allow for greater collaboration in research, access to cross-functional skills, business links to specialist local suppliers and better integration into global supply chains. Industrial clusters can also be an important tool to support the development of SMEs and should be championed through quality industrial policy at an EU level.

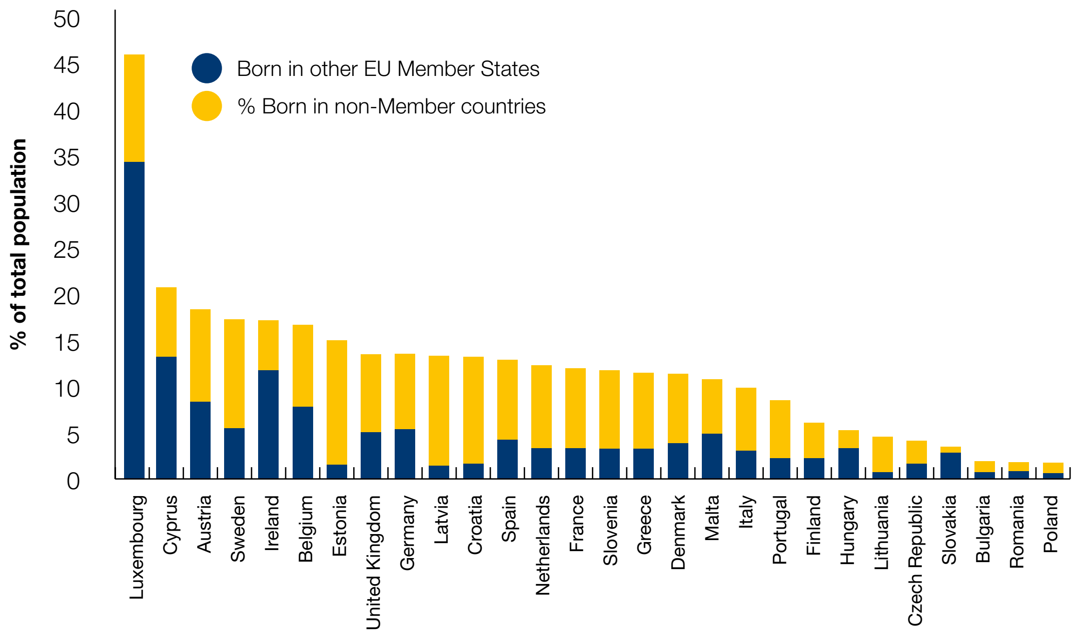
# Freedom of movement of people – good for society, good for business

The free movement of people is an essential pillar of the EU single market. Ireland is proud to be a country which welcomes people from across Europe and the globe. We are champions of the right of citizens to live and work in whichever member state they choose. Irish society and our economy has benefitted enormously from this open approach. Irish people work in many countries across the globe, something which has been particularly important in times of economic recession, and we understand the mind-set of the migrant. Our society and economy have also benefited from a diverse set of skills offered by migrant workers including foreign languages and diverse experience. Our labour force has been bolstered by employees from across the EU, which is particularly important when our economy is growing as strongly as it is. In a much broader sense, Ireland, our cities and our regional communities have been enriched by a diversity of culture.

The facts support this view - the Irish population has one of the highest proportion of EU28 'movers' living in the country, representing over 10% of our total population. Furthermore, the employment rate among that 10% is extremely high, a testament to the important role EU migrants play in the Irish workforce. With the Economic and Social Research Institute of Ireland predicting that the Irish labour force is set to decrease in the coming years, continued and even increased immigration to fill gaps in our workforce will be essential to fulfil employer demand. For these economic and broader societal reasons, Ibec fully supports the free movement of people and asks the EU to ensure it remains a fundamental pillar of the single market for generations to come.

Of course, non-EU immigration and the recent refugee crisis has presented another set of challenges when it comes to the movement of people across EU borders, both external and internal. In December 2017, the European Commission launched the European Partnership for the Labour Market Integration of Refugees, an initiative which aims at bringing together the European social partners to promote and share experiences of actions that foster labour market integration. Ibec wholeheartedly welcomes this initiative, which aligns with our view that inclusive workforces should draw on the skills and talents of all and we look forward to continued cooperation with this initiative alongside our business partners at European level. Ibec also supports EU initiatives which help foster a multi-stakeholder approach to investment and development in migration hotspots, particularly in Africa. The business community can play an important role in such initiatives and can contribute investment and expertise to the EU's sustainable development programmes.

## Foreign and foreign-born population in EU-28




*Source: Eurostat, foreign-born population by country of birth, 2016*

Ibec Priority 2: **Globalisation and trade**

# An EU that leads the world in trade and investment

**Ireland is a model of how globalisation can bolster an economy. We exemplify the journey of a country which was once inward-looking, protectionist and overly reliant on primary industry, to one which is a world-renowned business hub.**

Our economy is supported by indigenous and multinational enterprises alike, which makes Ireland a leading exporter of top quality goods and services, from dairy and meat products to biopharma and medtech devices to computer and financial services. We are an important destination of inward investment for global companies- all of the top 10 global technology firms have operations in Ireland. Ireland is the fifth most extensive exporter of goods and services globally, well equipped to compete in a digitalised world. We have benefitted enormously from having an open, outward-looking economy and favourable access to international markets supported by trade agreements. The EU should continue to be a champion of trade and investment, pursuing ambitious free trade agreements in a balanced manner with an open approach to cross-border data flows.

To be a global leader in trade and investment, the EU should:

- Continue to pursue ambitious free trade agreements (FTAs) with third countries in a balanced manner. This should include a fully comprehensive and ambitious future trading relationship with the UK, continued commitment to strong trade relations with European Free Trade Association (EFTA) and EEA members, as well as demonstrating a long-term commitment to renewed negotiations with the USA. We also look forward to increased trade opportunities through the implementation of trade agreements with partners such as Japan, South Korea and Canada;
- Demonstrate continued commitment to building international partnerships, recognising the importance of being open to investment opportunities and the intrinsic link between trade and investment;
- Remain a rule-maker and not a rule-taker when it comes to setting the rules of global trade. This is increasingly important in digital trade where global trends towards protectionism prevent the free flow of data across borders which is integral to many businesses across many sectors. The EU can be a global leader, but must make the right decisions to embrace trade and investment in a digitalised world;
- Be a champion of globalisation by remaining open to global trade and investment. Existing tools such as the European Globalisation Adjustment Fund should be retained to promote training opportunities in communities and sectors impacted by globalisation, therefore helping to combat populist sentiment caused by a number of factors;
- Ensure the integrity of the single market is balanced with the opportunities presented by trade agreements. The cumulative impact of numerous agreements on economically significant, job-intensive sectors such as agriculture must be considered and reflected in the Commission's negotiating positions;
- Enable European businesses to expand within the EU as well as externally, through employing policies which encourage competitiveness, education and skills, regional development and quality infrastructure in all member states, empowering European businesses to thrive and innovate;
- Follow a reasoned approach to investment screening and trade defence instruments. Ibec is against the imposition of a screening mechanism at EU or national level that adds a layer of bureaucracy to the already complicated decision-making process of placing mobile international investment. Any process introduced at EU level must not result in delays that could jeopardise investment decisions. Different locations compete to attract foreign investment and the EU must remain an attractive destination;
- Demonstrate a renewed commitment to ensuring that trade in services remains high on the agenda and that trade in services becomes an integral part of all FTAs going forward. In an ever-digitalising world and with so many industries reliant on cross-border services and data flows, it is essential that barriers to trade in services are removed and markets liberalised;
- Take an ambitious position regarding rules that encourage data flows and address unjustified data localisation measures in trade agreements. The EU has the opportunity to lead, and must avoid measures that favour protectionism over openness;
- Facilitate and encourage greater private sector investment in high potential markets such as Africa. Connecting European business and innovation to gaps in the African market by working with local governments through projects such as the G20's Compact with Africa could benefit local communities in a sustainable way and increase business opportunities for European investors. The business community can play an important role in a multi-stakeholder approach to development; trade and investment can effectively drive sustainable development. Ibec's own joint-partnership, Winning Business in Africa, is an example of such an initiative.

# Trade in services – creating trade policy for a digitalised world

The EU single market in services is incomplete. The EU should maintain an open services market but also seek greater market access for services through its trade agreements. This is essential in a digitalised world and will enable global value chains and reduce costs for SMEs and multinationals alike. An open services market also supports entrepreneurship and increases competitiveness.

A well-designed regulatory system for services will increase the attractiveness of the EU market as a destination for foreign direct investment. For trading services outside the single market, regulatory cooperation, agreed between the EU and trade partners, reduces trade frictions. It is essential that the EU acts now in completing the single market for services, integrates services into all FTAs and ensures that free flow of services is high on the list of priorities for a new EU-UK partnership.

Services generate more than two-thirds of global GDP; attract over three-quarters of FDI in advanced economies; employ the most workers and; create the most new jobs globally. OECD data shows that in 2016, Ireland exported services worth $147 billion and imported services worth $192 billion. Services account for over 50% of Ireland's gross exports. This compares to 15% of gross exports in Germany; 34% of gross exports in Denmark and 44% of gross exports in the UK. The contribution of services to trade in Ireland is one of the largest among OECD economies. Ireland's specialisation in services as well as the opportunities arising from digital developments across sectors, puts Ireland in a strong position to benefit from an open, global services economy.

Trade in goods and services complement each other: in fact, a high share of trade in services is embodied in other sectors' exports. Cross-border services delivered digitally could become the new driver of international trade. However, companies continue to encounter barriers to global services trade created by national trade and regulatory policies such as restrictions on ownership and foreign equity; public procurement or licensing requirements. Protective measures, such as data localisation, also inhibit the growth of the services economy. The EU must act now to lead the global approach to trade in services and ensure its measures support cross-border data flows. Ibec and Irish business want to see the EU being a global champion of cross-border data flows and avoiding protectionist measures which would stifle competitiveness.

**The EU exports over €900 billion worth of services a year**

# Investment screening

Openness to investment has been a key pillar of Irish economic and business success. Reducing restrictiveness in this area to facilitate the free flow of capital is increasingly important as the competition to attract investment is global and intense. Business needs certainty, transparency and predictability in placing mobile investment. Open and mutually beneficial trade and investment is a key driver of economic growth and prosperity.

By introducing regulatory restrictions on inward FDI, a country or region restricts its ability to attract inward investment. Foreign equity restrictions or operational restrictions have been shown to impact FDI stock levels as well as capital investment by firms. Today's investment market is global; EU member states must actively compete with the rest of the world to attract FDI. Currently, the EU's position is declining as both a source of FDI but also as a destination for FDI. Policies that encourage investment and the free flow of capital across borders are therefore increasingly important.

The OECD's 18th Report on G20 investment measures highlights increased attention to investment policies related to national security over recent years. Actual changes to investment policy have been limited so far but there is an increase in the consideration or preparation of investment policies linked to national security. At EU level, the European Commission, at the request of some member states, has published a draft regulation to establish a framework for screening of foreign direct investment in the EU where such investment may impact national security or public order.

Investment screening is in place in many EU member states and other advanced economies such as the US. While the concerns that the proposed regulation seeks to address are valid in some cases, it is critical that this does not inadvertently lead towards restrictiveness in trade and investment policy more broadly. The scope of any screening mechanism introduced at EU level must be clearly defined to ensure predictability and transparency. The decision to introduce a mechanism at member state level must also remain voluntary. Ibec calls on the Irish government and the EU to create and maintain open, non-discriminatory, transparent and predictable conditions for investment.

> "Open, non-discriminatory, transparent and predictable conditions are essential for investment."

# A dynamic EU that embraces a competitive taxation policy

**The EU should ensure that it continues to develop in a manner which facilitates companies, economies and member states to innovate and grow. An essential part of this is respecting member state competence to maintain full sovereignty when it comes to decision-making on all taxation matters. The EU should ensure that its policies are always in line with supporting competitiveness and growth.**

To embrace competitive taxation policy, the EU should:

- Ensure that essential taxation issues are dealt with through international agreement at OECD level and do not pre-empt the work of initiatives such as the Base Erosion and Profit Shifting (BEPS) project. The EU should not attempt to supersede these positive developments by implementing their own EU-level taxation strategies which would be harmful and costly to businesses;

- Encourage simplicity and certainty in taxation policies by avoiding any step towards a common consolidated corporate tax base. The CCCTB as proposed by the Commission, would introduce a greater level of uncertainty for businesses operating in the EU and stifle the competitiveness and growth opportunities of member states, with the potential to do severe damage to small, dynamic, exporting countries such as Ireland. Furthermore, a mandatory consolidated European tax base is in violation of the key Treaty principles of subsidiarity and not in the interest of the business community;
- Avoid unilateral action at European level for tax rules on the digital economy. Rules should be universally effective and aligned with work at international level at the OECD. There should be no special tax rules for the digital economy. Taxes applied to digital goods and services should be consistent with taxes applied in the non-digital area. Rules should be universal, fair, effective and neutral. The internet has changed how business is conducted. It enables companies of all sectors and sizes to more efficiently deliver goods and services. We favour a broad-based consumption tax that does not differentiate between domestic or foreign providers or specifically target digital goods and services.

> "Competitive taxation policy will ensure that European companies, economies and member states can harness innovation and secure sustained growth."

# Common Consolidated Corporate Tax Base (CCCTB) – a step in the wrong direction

Ibec is in favour of initiatives which seek to provide business with the tax environment it needs to support growth and investment in the EU. In this context, the European Commission's recent initiatives regarding the introduction of a Common Consolidated Corporate Tax Base (CCCTB) are a step in the wrong direction. Business thrives on simplicity and certainty. At this time, we are concerned that the introduction of a CCCTB would hamper competitiveness in the EU. We believe that in the current context of a prospective change to corporate tax, most, if not all, of the aims of the CCCTB could be better achieved by ensuring full engagement with the implementation of the OECD's Base Erosion and Profit Shifting (BEPS) strategy within the member states.

The initial discussions on the CCCTB noted that:

> *"The purpose of the common tax base is not to reduce the level of taxation in any way but rather to create a more efficient method of taxing EU companies in a broadly revenue-neutral manner"*

Ibec believes that this underlying aim is sound but that it, along with many of the other aims of a CCCTB, would be best achieved by focusing member states on the successful implementation of the BEPS process. Current proposals to go beyond the BEPS process at an EU level as well as introducing a CCCTB would add an unnecessary level of uncertainty and complication to this process. These proposals would make it more difficult, time consuming and ultimately costly for companies to comply with the new international standards in corporate tax. Ultimately, our fear is that discussions on further unilateral European actions outside of the BEPS process will serve to undermine the worthwhile and substantial achievements of the global BEPS initiative. It would also create uncertainty for businesses as they navigate new global taxation environment adding an additional distraction and uncertainty for firms operating across countries or considering investment in the EU.

The proposal of a mandatory consolidated European tax base also runs contra to the notion of subsidiarity and would have a negative impact on the business community in many, if not all European states. The CCCTB, which we view as a first step towards tax harmonisation, would do particular damage to small, dynamic, exporting countries such as Ireland. In the first instance, this proposal would almost certainly lead to an increase in companies' tax rates, reducing the attractiveness of the EU as a whole for investment. Additionally, this would result in lower revenue from corporate profits in smaller countries (even those with substantial substance related to these profits). It would effectively result in a transfer of resources from smaller countries to larger ones. This would inevitability lead to other taxes being increased to offset this loss of revenue or services being reduced considerably.

In the case of Ireland, which exports the greater part of its output to the larger central economies of the EU, companies would see part of their profits, apportioned to other member states such as Germany or France. This would be in direct contrast to the notion under BEPS that profits should be aligned with substance. In addition, indigenous exporting firms from countries with lower corporate tax rates such as Ireland would be dis-incentivised from exporting to countries with higher corporate tax rates undermining one of the core benefits of the internal market.

# An EU that respects member state competency to design labour market and social policy

**To prosper, the EU must focus on acting only in the areas in which it can have real added value for European societies. The EU must avoid mission creep, uphold the principles of subsidiarity and proportionality and ensure that in areas such as labour market and social policy, member states retain competency. By keeping labour and social market policy at a member state level, national governments and policy-makers can best consider nuances in societal culture, local labour market realities, demographics and citizens' needs. The EU already has the best living standards and labour rights in the world, and the treaties already include the important areas of a social Europe.**

## Having too much labour and social policy catered for at an EU level will leave citizens feeling disenfranchised and isolated from policy-makers.

To keep decision-making close to its people, the EU should:

- Respect and uphold the principles of proportionality and subsidiarity and ensure that it acts only in the areas in which it has competency and ability, leaving the rest to be catered for at member state level;
- Tackle issues of inequality through policy areas in which the EU already has competency such as better utilising CAP and cohesion funds to tackle the urban-rural divide;
- Offer solutions to unemployment, and in particular youth unemployment, by ensuring that EU policies are business friendly and can support businesses' ability to innovate, grow and employ. It is companies, not social policy, which create employment, and so this issue can be tackled through ensuring businesses have a simple and secure regulatory and economic environment in which to operate successfully and sustainably;
- Assist member states in reforms to education and training systems which train and upskill people; particularly with science, technology, engineering and mathematics (STEM) skills. This means improving both specific and transversal skills and retaining existing competence and talents in the EU. It also means that the EU should be ahead in the global race for talent by attracting skilled workers from outside the EU;
- Facilitate member states to deal with current social and labour market challenges by setting up a fresh approach on benchmarking labour market reform.

> "The EU must focus on acting only in the areas where it can have real added value for European societies."

## Labour market reform – fresh approaches needed

Europeans are living longer than ever before while simultaneously birth rates across the EU and other developed regions of the world are in a steady state of decline. These phenomena of the 21st century are putting unprecedented pressure on our labour markets and pension systems.

Member states need a fresh approach on benchmarking labour market reform. Ibec is advocating that the EU facilitates policy learning exercises across member states so that we can face these challenges together. The EU should implement a learning framework where countries can share best practices in areas which tackle these new labour market realities. Removing barriers to integration of new entrants on labour markets, such as rigid employment regulations is one such way employers can assist in developing a secure labour market resistant to these changing demographics.

Employers across member states should be allowed to facilitate different forms of employment contracts to ensure attractiveness of employment to individuals at various stages of their lives. Member states should reinforce the effectiveness of the tax and benefit systems to ensure that work pays, this includes measures such as reducing the tax wedge on employment and avoiding unemployment traps.

The EU should encourage member states to implement education and training schemes which are in line with labour market needs. This may necessitate support to reform education and training systems, anticipating skills needs and improving data on job vacancies. Life-long learning is another important tool which will help employees adapt to changing work environments, allowing for upskilling and retraining which enable workers to participate fully in society and successfully manage transitions in the labour market. The European Commission should intensify a project-based approach to developing initiatives in these areas and support member states to deal with the new labour market realities of the 21st century.

“Employers across member states should be allowed to facilitate different forms of employment contracts to ensure attractiveness of employment to individuals at various stages of their lives.”

# An EU that champions Better Regulation

**Poorly designed policy, legislation and regulation add to the cost of doing business and are obstacles to job creation, growth and prosperity. This can be remedied through the Commission's continued commitment to the Better Regulation agenda, promoting better and more effective legislation as a long-term commitment across EU institutions. EU regulations should be developed in conjunction with national representatives, business organisations and civil society, so those at the coal-face can advise on the most suitable policy framework.**

To champion the Better Regulation agenda, the EU should:

- Demonstrate renewed commitment to the Regulatory Fitness and Performance (REFIT) programme and continued engagement with stakeholders on how to make EU regulation more efficient and effective;
- Continue with the Lighten the Load- Have Your Say facility, which offers an opportunity to crowdsource views from individuals, businesses and other parties on existing laws and regulations. This practical initiative ensures the EU is adequately resourced and actively promoted across member states as an efficient way to make effective policy;
- Expand the REFIT programme to examine the general stock of regulations in force as a way to encourage the EU to implement regulation which encourages, rather than hampers competitiveness;
- Encourage all member states to establish business-led groups to examine EU policy. Membership should be cross-sectoral and representative of national economies. This would represent a significant constructive contribution to the better regulation agenda at a national level;
- Foster a dynamic approach to new and highly innovative technology (e.g. nano-technologies, robotics, life sciences etc.). Ensure that regulation in these areas does not hamper innovation but rather strikes a balance to ensure that the EU becomes a leading hub and strong ecosystem for the development of innovative products and services;
- Ibec welcomes the establishment of the new Industrial Policy committee and recommends that such platforms are rolled out to cover other important areas of added value;
- Maintain a growth-enabling competitive environment. Competing economies such as the US, China, and now potentially the UK, are looking to the adapting regulatory system to accelerate innovative activity. The EU must not fall behind.

# An EU that ensures fiscal rules are in tune with all member states

**The individuality of member states' needs should be considered at a European level. Each state has a diverse and nuanced set of requirements which should be considered by EU level policy-makers. We want to see a robust, rules-based approach to the management of day-to-day EU spending, but capital investment projects should be treated more favourably.**

To ensure fiscal rules are in tune with all member states, the EU should:

- Reform the accounting standards under fiscal rules to include a separate capital account. Moves should be made over time to establish registers of state assets (including in state or semi state-owned companies). Only net investment (that is gross investment minus sales of these assets) should be included within the calculation of the expenditure rule;
- Allow the EU's fiscal rules to account for depreciation over the longer period. Given the difficulty in judging the serviceable lifetime of each new asset at the outset, it may be necessary to define a set time period. Currently, capital allowances in the Irish tax system, for example, allow depreciation of new plant and machinery on a straight-line basis over an eight-year period;
- Allow member states such as Ireland the flexibility to introduce a new investment target which is both explicit and binding over the long-term. This should be implemented at a European level in the same manner as the various EU2020 targets, particularly those for expenditure on R&D;
- Overcome concerns about allowing excess build-up of debt through, for example, placing limits on debt financing of capital expenditure through limiting the interest carry-cost of capital expenditure as a proportion of tax revenue. In either event, it should be kept in check to a great extent by the current debt rule;
- Allow investment in structural reform initiatives and capital spending to be exempt from fiscal rules in a wider context, similar to the flexibility shown by the European Commission around the Juncker Investment Plan.

# Ireland's infrastructure needs – building today for a brighter tomorrow

Ireland has a wide-ranging and unique set of infrastructural needs which the EU must consider when designing its fiscal framework. Our economy is at a critical juncture, experiencing excellent growth rates in recent years yet facing a period of uncertainty due to international external factors such as Brexit and challenges to global trade and investment. Our population is also increasing, with the latest census figures showing growth of 3.8% per cent since 2011. This, coupled with a lack of infrastructure investment as part of the austerity policies we faced during the financial crisis, has led to chronic shortages in vital infrastructure such as transport and housing.  Flexibility in the fiscal rules at an EU level would allow Ireland and other member states to invest in growth-enabling infrastructure developments, harnessing current positive economic momentum and positioning ourselves in the best possible way to face external threats head on.

The European economy has emerged from the financial crisis and is growing at a steady rate. The EU should build on this positive trajectory and unlock growth potential across member states through a more flexible fiscal framework. The time to allow for this flexibility is now.

The Irish government's recent announcement of Project Ireland 2040, which comprises of the National Development Plan and the National Planning Framework is a step in the right direction. Project Ireland 2040 heralds an exciting new era for the Irish economy and society. This plan will allow for better functioning, sustainable, and more vibrant towns and cities which will drive prosperity across Ireland, in rural and urban areas. The EU must also demonstrate a similar commitment to delivering on essential infrastructure projects in Ireland and across all member states through ensuring its fiscal framework is flexible and does not pose unnecessary barriers to investment. Our potential for economic and social improvement is at risk of stalling or declining if we do not see large scale infrastructure investment in essential areas such as transport, health, housing, the environment and education. This investment must be wide-ranging, ensuring our regions benefit just as much from positive economic growth and infrastructure development as our urban areas.

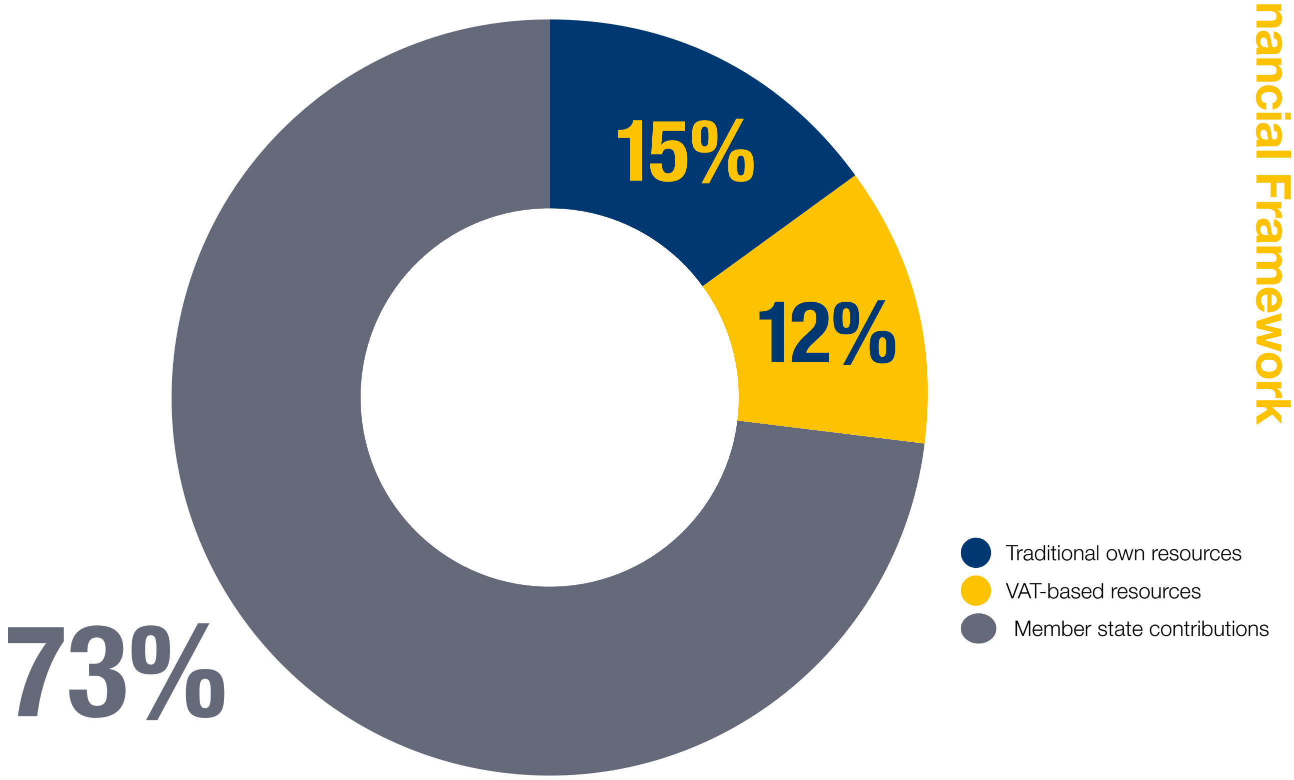
The EU's policy on infrastructure and development must account for the nuanced needs of different member states. It must encourage investment in essential public services rather than putting up barriers. The time for the EU to demonstrate this flexibility is now, harnessing positive economic growth and ensuring that our cities, towns and regions are well equipped to provide our citizens with a high quality of life.

# Multiannual Financial Framework

**In important existing funding streams, such as CAP, EU investment must continue. At the same time, current security and defence challenges will mean that new funding requirements need to be examined. For business, additional support for research and innovation is essential if the EU is to achieve full potential and play a leadership role in a digitalised world.**

The current MFF covers the period 2014-2020. The MFF post-2020 is now up for debate, with the Commission due to publish its first formal proposal on the framework in May 2018. This proposal will be particularly important given that the Commission will indicate their position on if and how to make up the shortfall in the budget caused by the UK's departure from the EU and where the EU's post-2020 policy priorities lie.

## How the MFF is funded

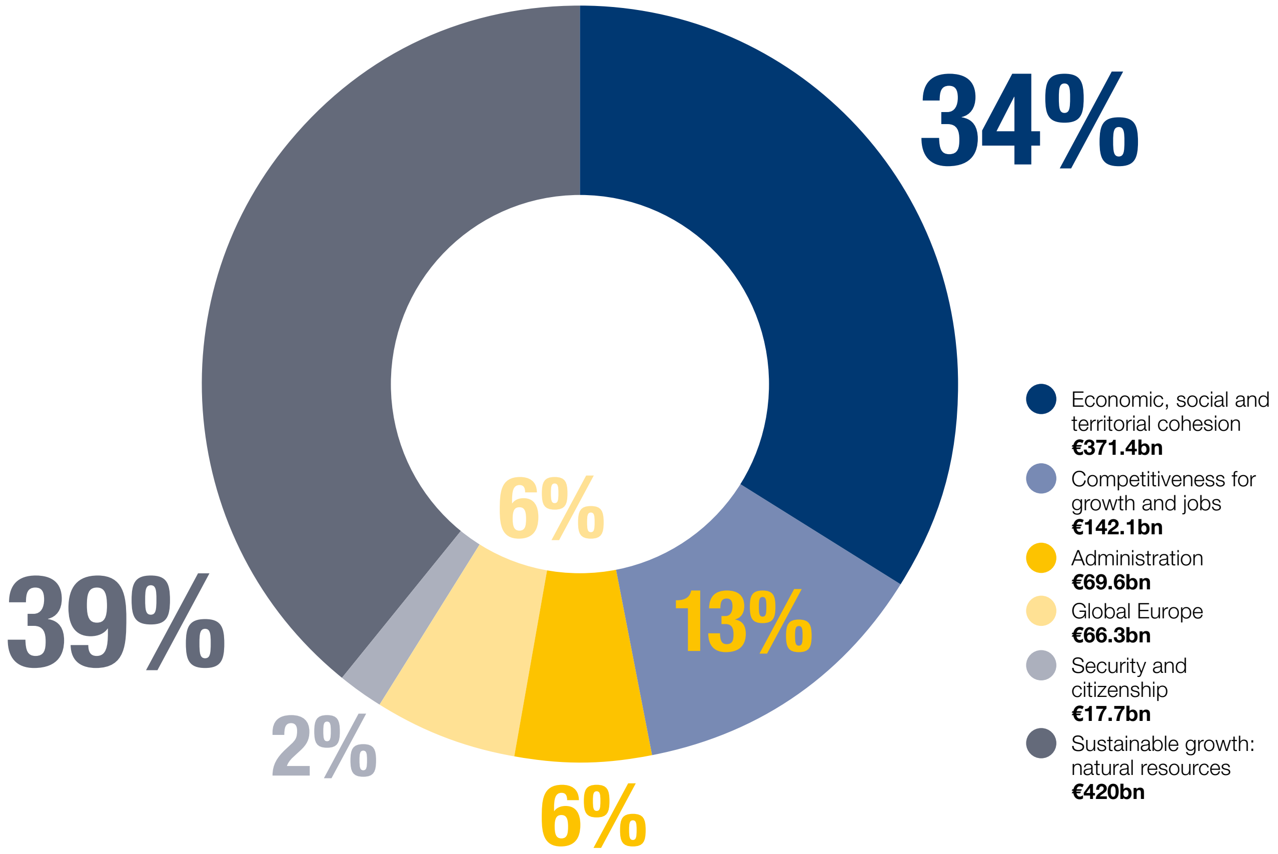



*Source: European Commission*

The current MFF 2014-2020 is divided into six categories which determine the areas of spending and policy priorities for that timeframe:

1. Smart and Inclusive Growth
   a. Competitiveness and growth for jobs (R&D/ Horizon 2020)
   b. Economic, social and territorial cohesion funds
2. Sustainable Growth: Natural Resources (CAP/ Rural development funds)
3. Security and Citizenship
4. Global Europe
5. Administration

## Areas financed by the EU budget – €1,087bn MFF 2014-2020




*Source: European Commission*

The MFF post-2020 has to shape the needs and demands of 27 member states. It is essential that its effectiveness is maximised, particularly at this critical juncture with the UK leaving the EU.

**Any increase in Ireland's contribution should be based on funding key areas for business.** The Commission should ensure that adequate funding remains available for policy that has a real benefit. The EU must bolster investment in research, development and innovation – key to ensuring EU global competitiveness into the future. This competitiveness will also require the EU's continued commitment to funding traditional areas that have tangible benefits, such as the CAP.

# Ireland and the MFF

Ibec's priority for the future of EU finances is that the EU **strengthens its commitment to spending in essential areas** while also ensuring that the MFF Post-2020 is flexible enough to meet current challenges. The next cycle of the MFF should finance policies which have tangible value-add to European societies. The framework should be used as a facilitative way in which to implement policies efficiently and effectively rather than compensating for badly designed and ineffective policies.

The biggest change in the MFF Post-2020 will be the reduction in resources available due to the UK's departure from the EU. How this shortfall will be made up, through either cuts or new sources of revenue, will ultimately be a political decision, but Ibec asks that the EU institutions and member state decision-makers pay heed to the following priorities for the future of EU finances:

**Ibec's priorities for the future of EU Finances:**

1. Design the MFF post-2020 in the spirit of being ***'big on the big things, small on the small things'***, and acting only in the areas where the EU has proven added value and can achieve tangible results;

2. Increase funding for **research and innovation**, including a commitment to Framework Programme 9 (FP9), as an essential area of value-add expenditure. The MFF Post-2020 should ensure that research and innovation, job creation and economic prosperity remain core goals of the EU finance strategy. The EU is lagging behind international competitors in terms of research intensity and investment spending- the urgent scale-up of EU funding for research, development and innovation will assist the EU in maintaining global competitiveness. The EU must give a high priority to supporting research and innovation, ensuring that funding in this area is not overshadowed by decisions on traditional and new areas of policy spending;

3. Uphold current commitments to the **CAP**, an area of spending which is essential in protecting Ireland's farming and rural communities, which are the key suppliers to the high-value export food and drinks sector. Any cut to current spending in this area could be particularly detrimental given the vulnerabilities of this sector in the context of Brexit. At a European level, CAP spending is also essential to ensure that the EU remains self-sufficient in our food production, and also contributes to easing disparities between rural and urban communities. Furthermore, CAP is an essential and effective tool in maintaining environmental standards of Europe's countryside and as such should remain a key budget priority of the EU moving forward.

# EU must spend more on Research & Development, Innovation

In an increasingly globalised and competitive world, the EU must demonstrate the utmost commitment to bolstering the EU's potential in research, development and innovation. The EU is lagging behind international competitors in terms of research intensity and investment, spending only 2.0% of its GDP on research and innovation when compared with Japan's 3.65% and the US' 2.7%. We should be more ambitious for the EU to achieve its potential in the 21st century.

The scale-up of EU funding for research, development and innovation is an important element in maintaining global competitiveness but also in reaping the benefits of digitalisation. This is also essential as the EU looks for innovative solutions to current challenges such as cyber-security threats, climate change and the growing health security threat of antimicrobial resistance.[12] **The EU budget should be a tool to equip European innovators and researchers with the necessary funding and resources to be top of their game when it comes to research projects and development of new technologies in such fields.** Increased funding for research, development and innovation is vital to ensure that the EU remains a pioneer and leader in emerging fields.

Ibec believes that the EU must be ambitious and forward-sighted when developing FP9, if the European business is to lead on a global level. The value-add from this area of expenditure will be critical for future EU success and should be seen as a sound investment from which societies across the EU will benefit.

Ibec also asks the EU to ensure that enterprises, particularly SMEs, have simplified access to European programmes for research and innovation. This should include strong EU-level support for joint projects with universities and research institutions across member states and specifically tailored support to ensure that SMEs can effectively engage with innovation and research programmes at a business level.

Furthermore, the EU should work in close collaboration with national authorities when developing FP9 to ensure that programmes developed at EU and member state level are complementary and do not negatively impact one another.

12. WHO Europe, 2016, http://www.euro.who.int/en/health-topics/disease-prevention/antimicrobial-resistance/about-amr/amr-in-the-who-european-region
European Commission AMR Factsheet, 2016, https://ec.europa.eu/health/amr/sites/amr/files/amr_factsheet_en.pdf

# Common Agricultural Policy (CAP) – essential support for rural communities and the food sector

The future EU budget should continue to champion traditional policies that work. The Common Agricultural Policy (CAP) is one such area of spending which, despite its longevity, continues to add tangible benefits to European communities and business.

Support given to farmers through the CAP helps to maintain our rural communities and the rural environment. CAP funding also helps to address disparities in the rural-urban divide, safeguarding fair incomes for farmers and their families.The CAP is essential in ensuring that the EU remains self-sufficient in its food supply and continues to produce the highest quality of produce for European consumers. In more recent times, the CAP has been reformed to integrate environmental sustainability as a key element of the policy. The integration of environmental concerns into the CAP is based on ensuring a sustainable way of farming by avoiding environmentally harmful agricultural practices, as well as through providing incentives for environmentally beneficial public goods and services. This has important knock-on effects in other important European industries such as tourism.

The CAP is particularly important in the Irish context as it ensures that our farmers have access to the resources necessary to provide top-quality agricultural produce, which is a fundamental component of our food and drink industry, Ireland's largest indigenous sector. The EU should ensure that CAP continues to allocate adequate resources ensuring that rural communities can thrive.

Maintaining CAP support is even more important in the context of Brexit. At present, the UK represents a 37% share in the export market for the Irish agri-food sector, followed by 32% for the rest of Europe. Ireland is the UK's largest supplier of food and drink and consequently, the UK's decision to leave the EU is the most immediate challenge facing the Irish agri-food sector. Already Irish producers have faced uncertainty from the weakening of sterling in the aftermath of the Brexit vote, with challenges set to increase greatly if the UK does not remain part of the single market and customs union. With one in eight jobs in the Irish economy reliant on agri-food, failure to protect the industry or to reduce or re-classify the CAP payments to Irish farmers could worsen the challenges posed by Brexit.

It is fundamental that the EU continues to champion the traditional areas of spending which have a real added value in European societies. From Tuam to Turin, the importance of CAP cannot be underestimated. It is essential that the EU continues to support legacy policies, such as the CAP, whose value at times can be underestimated. This is a classic example of the EU being 'big on the big, small on the small', focusing on the areas in which it adds true value and delivers positive impacts.

# EU security and defence (PESCO) – a safe, secure and predictable environment

A significant new development in EU policy is an increased focus on security and defence. The European Commission wants more cooperation in this realm as evidenced by the announcement in late 2017 that 25 member states, including Ireland, signed up to PESCO, the EU's Permanent Structured Cooperation in Security and Defence. This trend is likely to have implications for the MFF Post-2020.

PESCO is a Lisbon Treaty-based framework and process designed to deepen defence cooperation among EU member states which are capable and willing to do so. It seeks to jointly develop defence capabilities and make them available for EU defence operations. The objectives of PESCO are to enhance EU capacity as an international security partner, contribute to the protection of European citizens and maximise the effectiveness of defence spending.

Businesses thrive in environments which are safe, secure and predictable, and Ibec recognises the importance of addressing the current challenges which threaten such a stable environment. This is particularly relevant to business in the context of cybersecurity, which poses serious threats to business yet also offers opportunity for private sector involvement in the development of new technologies to protect against such attacks.

**25**
**member states have signed up to PESCO**

# Cyber security – a real risk for businesses in the Digital Age

**Cyber security** is of key importance for businesses, particularly as more and more companies become digitalised and rely upon the cloud and connectivity to carry out day-to-day operations. Irish businesses are not immune to cyber-security issues, with the 'WannaCry' ransomware attack of May 2017 demonstrating the destructive and disruptive effects such attacks can have on businesses and consumers. Businesses perform best in safe, secure and predictable environments. Safeguarding the resilience of digital infrastructure and the digital economy is a key priority for Ibec and Irish business.

Sectors such as energy, finance, health and transport have become increasingly dependent on digital networks and information systems to run their core operations. As cyber-attacks become more prevalent, it is important that companies know the risks and are adequately prepared. The EU is looking to increase its cybersecurity capacity and a key step in this process is strengthening member state cooperation. PESCO's role in this process will involve deeper member state cooperation on cyber defence research and innovation. Protecting against cyber-attacks will also include having the mandate of the European Agency for Network and Information Security (ENISA) broadened and operating as the EU's Cybersecurity Agency. In September 2017, the Commission adopted a cybersecurity package to improve cyber resilience, deterrence and defence. The package proposes a permanent mandate for ENISA to provide expert advice, as has been the case until now, as well as moving into more operational tasks. The proposal envisages the creation of a voluntary EU cybersecurity certification framework for ICT products, where ENISA would play an operational role. Ibec supports ENISA in helping member states to develop their cybersecurity capacities and a non-mandatory certification framework based on international standards.

Ibec is committed to working with other member states and collaborating on knowledge-sharing initiatives that could help curb the rise of cyber-attacks. We also welcome the Commission's support for companies who wish to engage in collaborative research for innovative technologies and products through the European Defence Fund, launched in 2017. Ibec hopes that this fund will equip companies, particularly SMEs, with the support they need to diversify products and develop new technologies allowing them to integrate into European defence supply chains.

"Businesses operate best in a safe, secure and predictable environment."

# European Defence Fund – an increased focus on smaller member states

The European Defence Fund was launched by the Commission in summer 2017, with a core aim to coordinate, supplement and amplify national investments in defence. The initiative allows member states to pool resources to achieve greater output and to develop defence technology and equipment that may not be feasible on their own. Increased collaboration is expected to reduce duplication costs, promote standardisation of equipment and ensure better interoperability between European armed forces. The Fund also aims at fostering innovation and allowing economies of scale, thus reinforcing the competitiveness of the EU defence industry.

The Defence Fund has two strands:

- **Research:** The EU will offer grants for collaborative research in innovative defence technologies and products, fully and directly funded from the EU budget. Projects eligible for funding will focus on priority areas previously agreed upon by the member states, and could typically include electronics, metamaterials, encrypted software or robotics. From 2020 onwards, the EU aims to make €500 million in funding available per year.
- **Development and Acquisition:** Member states will be incentivised to cooperate on joint development and acquisition of defence equipment and technology through co-financing from the EU budget and practical support from the Commission. Member states can jointly invest in developing products and bulk-buying of equipment. From 2020 onwards, the EU will provide €1 billion per year in funding. Only collaborative projects, involving cross-border participation of SMEs, will be eligible.

The European Commission aims to increase funding to SMEs and other businesses operating in this sector under this initiative. Increased investment in cross-border research & development and innovation projects is expected to be a feature of the this new fund.  The EU institutions are also keen to ensure that it is not only the larger member states with developed defence industries which benefit from this fund. The Commission has expressed an interest in working with businesses from all member states interested to diversify into this sector. Ibec believes it is worth exploring the possibility of Irish businesses accessing support under this fund for initiatives compatible with our national neutrality e.g. developing defence technology to deal with cyber security risk that could impact essential infrastructure.

# Brexit and the Future of Europe

**The departure of the UK from the EU presents an unprecedented and profoundly unwelcome challenge to the Europe we know. For Ireland, the relationship with our closest neighbour and key trading partner is set to change fundamentally. This presents numerous and very serious challenges to the economy and the individual businesses affected.**

Close economic, political, cultural and historical links with the UK mean that Ireland is uniquely exposed to the discord and disruption of Brexit. The land border with Northern Ireland, and the need to safeguard the Peace Process, present additional complex challenges. It is crucial that these issues are fully understood and reflected in the negotiations and outcome.

The closest possible EU-UK economic and trading relationship into the future is in everyone's interest. A new free trade agreement should be as broad, comprehensive and as ambitious as possible, covering both goods and services. However, a deal must protect the coherence and integrity of the EU single market, and must ensure fair competition.

A significant gap currently exists between stated UK objectives and what is realistically possible within the parameters of the EU negotiating guidelines. This gap will need to narrow if meaningful progress is to be made. Political will, pragmatism and a spirit of cooperation is required. A fractious, disruptive divorce is in no one's interest and must be avoided.

"The closest possible EU-UK economic and trading relationship into the future is in everyone's interest."

# Key priorities

## 1. A smooth exit

An orderly withdrawal of the UK from the EU, which includes a fair financial settlement and a comprehensive agreement to secure the rights of EU citizens in the UK, and UK citizens in the EU, is vital. A clear framework to protect the Good Friday Agreement and avoid a hard border on the island of Ireland is also essential. As such, the UK must fully honour the commitments made in the phase one joint agreement of December 2017 and these need to be given full legal effect.

## 2. Comprehensive transitional arrangements

Any EU-UK deal must include comprehensive transitional arrangements to avoid a precarious "cliff edge" scenario and allow business plenty of time to prepare and adapt to a new trading relationship. Continuity with existing arrangements should be maintained until the point where a new relationship takes effect. The timing and nature of transition must also be flexible and responsive to the business needs that different scenarios may ultimately present. A temporary, targeted EU state aid framework will be required to help companies trade through any period of adjustment.

## 3. The closest possible relationship

Any EU-UK deal must facilitate the closest possible, tariff-free economic and trading relationship between the EU and UK into the future. An EU-UK free trade agreement should be as broad, comprehensive and as ambitious as possible, covering both goods and services. Ireland's energy security must also be safeguarded.

EU-UK cooperation and collaboration in higher education and research should also continue post-Brexit either through the continued participation of the UK in EU programmes or through new partnerships.

However, a deal must not undermine the coherence and integrity of the single market. Clear, legally binding and enforceable provisions will be needed to ensure fair competition and resolve disputes; and regulatory divergence must be avoided or kept to an absolute minimum.

## 4. Unique Irish challenges addressed

Any EU-UK deal must recognise the unique economic and political challenges that Brexit presents to Ireland, and put in place a range of specific measures to address these. It should build on the clear and far-reaching commitments of the December 2017 EU-UK agreement on the Ireland/Northern Ireland border, and also address Ireland's trade exposure and the challenges presented by the transit of goods through the UK to EU markets. Specific additional measures will be needed to ensure the future development of the all-island economy is not hampered in any way.

## Notes

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