

EU Exit Impacts on Northern Ireland's Services Trade

Department for the Economy Summary

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Department for the Economy

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1. Introduction

The UK economy is highly dependent upon the services sector with an estimated 70% of all economic activity and 80% of total employment being generated by service industries (World Bank's World Development Indicators). Data would suggest that the services sector in NI accounts for approximately 75% of GVA (2016) and 81% of employment.¹

To date there has been limited coverage of the UK services sector and how the UK's exit from the European Union (EU) may impact the economy and its trading relationships going forward. A number of subsectors account for a significant proportion on NI activity, with wholesale and retail being responsible for approximately 14% of total economic activity in 2016.²

NI is in a unique position, in being the only UK region with a land border with another EU country. The potential impacts could therefore be different to those on the NI services economy than at an overall national level.

As a result of the increasing importance of services trade across Europe, the EU has concentrated on deepening the Single Market for services. Whilst the Single Market is not regarded as being perfect, leaving the Single Market for services under any form of exit will have consequences for services markets in the UK. Both in terms of how services are regulated and in terms of output and employment.

1.1 Northern Ireland Tradable Services

In 2016, total sales of non-financial services by companies in Northern Ireland were estimated to be worth a total of £19.5bn.³ In the same period it is estimated that the service sector had external sales (sales made outside of NI) of £5.3bn with £1.8bn of those sales being exported (sales made outside of GB and NI).⁴ In addition, it is estimated that approximately 27% (203,652)⁵ of the Northern Ireland workforce is employed by businesses engaging in trade.⁶

It should be noted that the data does not fully capture the full extent of NI's tradable services, for example, the financial services sub sector is not included in these NI exports and sales statistics.

In 2016 approximately £704m (38%) of NI service exports were sent to Ireland with this value growing year on year. This would suggest that NI's services trade relationship with the EU and in particular Ireland is essential from an economic point of view. Changes to policies that underline the UK including NI's trading relationship to the EU Single Market have a potential to affect trade and therefore the impact on the businesses and jobs that underline the export data. It is therefore important to understand the scale of these potential impacts.

¹ [NISRA Quarterly Employment Survey](#)

² [NISRA](#)

³ [NISRA Broad Economy Sales and Exports Statistics \(BESES\), 2016, Goods and Services Results](#)

⁴ [NISRA Broad Economy Sales and Exports Statistics \(BESES\), 2016, Goods and Services Results](#)

⁵ Analysis sourced from [NISRA Quarterly Employment Survey, September 2018](#) and [ONS, Patterns of Northern Ireland trade by destination, product and business characteristics, 2018](#)

⁶ Please note it is not possible to break this down by destination of trade or by type of trade i.e. the trade of goods or services.

1.2 Project Overview

The Department for the Economy NI (DfE), commissioned Developing Trade Consultants (DTC) to produce an analysis of the potential impacts on NI's tradable services sector as a result of the UK's exit from the EU.


The analysis was completed using the OECD's Services Trade Restrictiveness Index (STRI) methodology as a basis⁷. DTC were tasked with quantifying the change in services policies under a number of different exit scenarios and to convert these to ad valorem tariff equivalents (AVEs). The OECD define an AVE as "a charge levied on imports, defined in terms of a fixed percentage of value"⁸.

The AVEs have been prepared across 17 key sectors (please see below) as identified in the OECD research. This research has been completed to allow for comparisons of changes in policy to be made between NI's trading relationship (both on an export and import level) with 45 countries covered in the OECD research.

Figure 1: Sectors included in STRI Research

Sectors Included	
Accounting Services	Insurance
Air Transport	Legal Services
Architecture Services	Logistics Customs Brokerage
Broadcasting	Logistics Storage & Warehousing
Commercial Banking	Maritime Transport
Computer Services	Road Freight Transport
Construction	Telecommunication
Courier Services	
Distribution Services	
Engineering Services	

Figure 2: Project Aim



To quantify the extent to which changes in the policy restrictions faced by NI firms as a result of the UK's exit from the EU could potentially impact NI's tradable services sector. To provide basic information on how changes in tariff-equivalents policy restrictions could possibly change in the chosen scenarios.

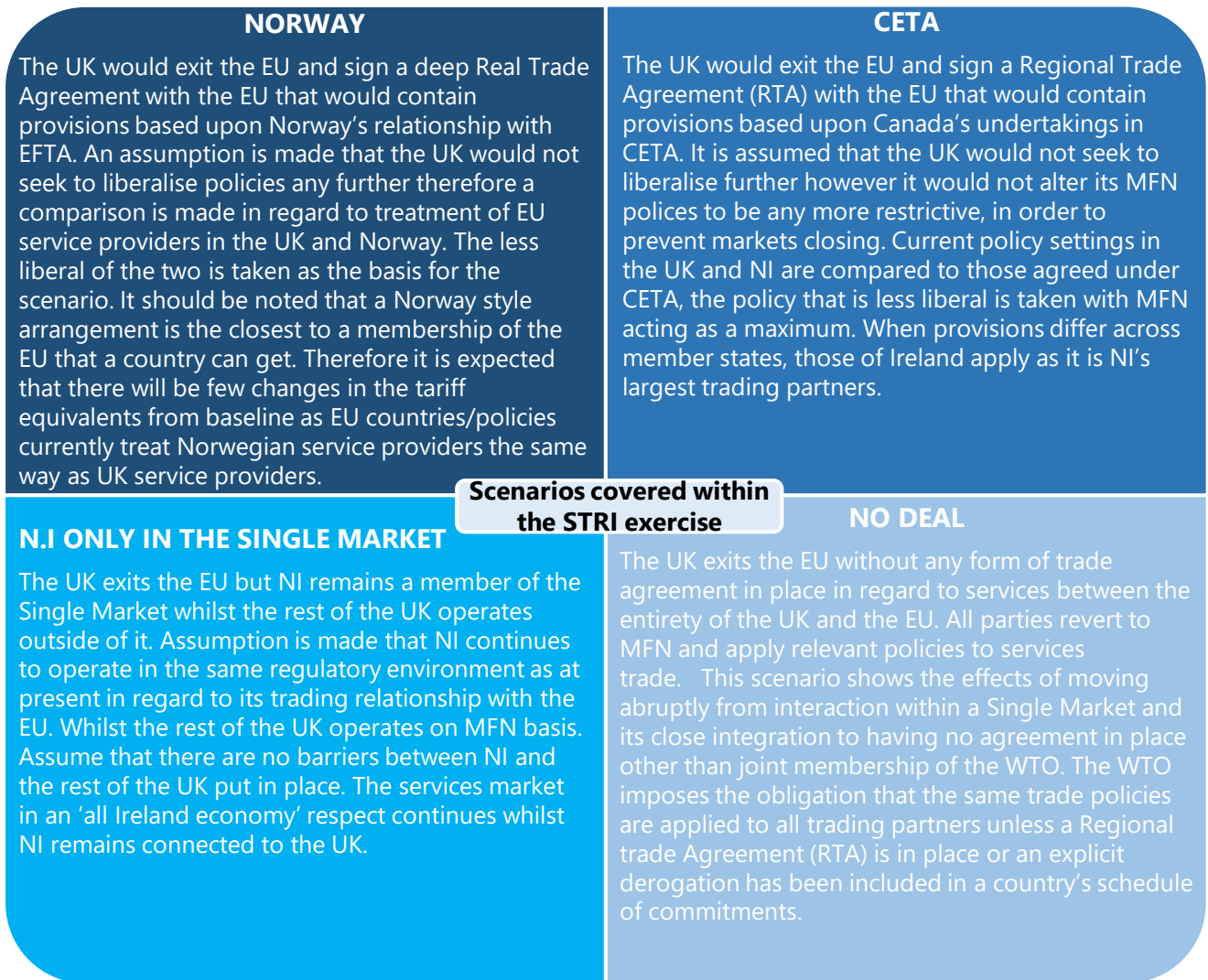
⁷ [OECD](#)

⁸ [OECD](#)

1.3 Scenarios Assessed

Based upon discussions between DTC and DfE, the following scenarios were chosen to be included in the research. Below is a brief description of what NI/UK's relationship with the EU would look like under each of these scenarios.

Figure 3: Scenarios covered within research



Scenarios covered within the STRI exercise

1.4 Methodology

There are significant differences in measuring trade restrictiveness for services and goods. Goods encounter trade barriers in the form of customs duties as well as quotas (quantitative restrictions) and other non-tariff measures (NTMs). Services trade is often restricted by regulatory measures similar to those NTMs placed on goods.

Assessing the restrictions placed upon firms engaging in services trade is not easily quantified due to the intangibility of services. Whereas with trade of goods, packages are physically moved across borders with paperwork and documentation providing a description of contents, destination, origin and quantity contained. Some sectors are particularly difficult to measure such as consultancy and commercial banking.

In order to quantify how the chosen scenarios could impact NI businesses' ability to engage in the trade of services, STRIs were converted into ad valorem equivalents (AVEs). This provides information on how changes in tariff-equivalents policy restrictions could possibly change in the chosen scenarios.

The following method was used to estimate the restrictiveness of trade policy settings in services.

Figure 4: Methodology



The above method is completed for all of the scenarios included within the research exercise. Please note that a full and detailed breakdown of the methodology can be found within the report.

1.5 Key Results

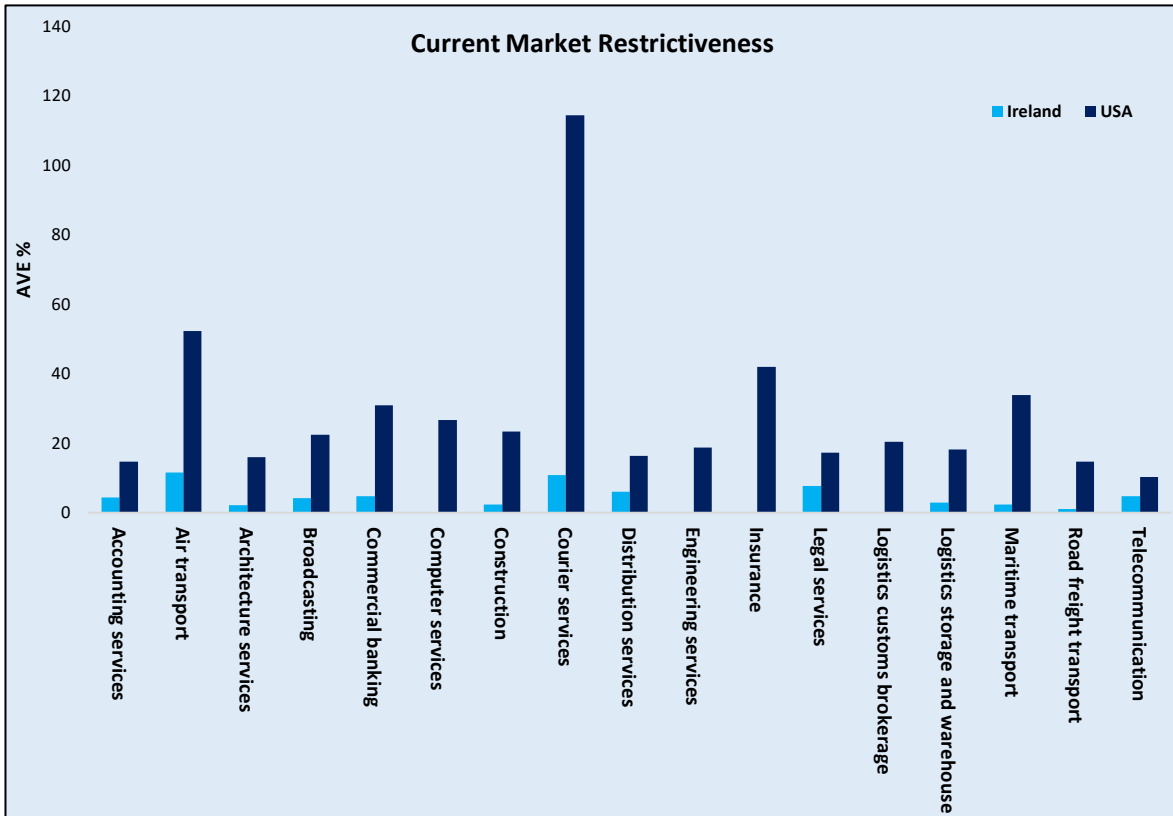
The results are presented on both the export (impact on firms selling services outside of NI) and import (impact on customers/firms accessing services from outside NI) side. NI's trading relationship with Ireland is used as a representation of NI's trading relationship with the EU as Ireland is NI's largest trading partner in the EU. Whilst the USA is used as a representation of NI's trading relationship with the rest of the world as the USA is one of NI's key trading partners outside of the EU. Please note that there are no policy changes in non-EU markets under any of the scenarios. For full results, please see the EU Exit and Impacts on Northern Ireland's Services Trade paper.

Openness of Single Market

The research shows that current market access conditions (baseline) are significantly more liberal within the EU and EEA than outside of it. The chart below shows the difference in the tariff equivalents currently faced by NI businesses engaging in services trade with Ireland and the USA. The data shows that membership of the Single Market in services

has a significant positive effect on the market access conditions facing firms in NI across all sectors, relative to those market access conditions faced when accessing the USA.

Figure 5: Current level of market restrictiveness



Source: Department for the Economy

Northern Ireland’s Trading Relationship with Ireland Under all Scenarios

In regard to the Norway and NI Only in the Single Market scenarios, there is little change from baseline for both of these scenarios as there are no changes in policy. This is because Norwegian firms are treated the same as UK firms at present under the first scenario and the status quo would remain under the second scenario. Therefore in both scenarios, market access would not change. In terms of the CETA and No Deal scenario there are significant changes to market access. With the CETA scenario there is a significant degree of uncertainty due to the current stage of implementation, with only bound polices being included and not those which have been applied.

Northern Ireland’s Future trading relationship with Ireland

The table below shows NI’s exporting relationship with Ireland across all of the scenarios. The data shows how the tariff equivalents progressively get higher as the EU exit scenarios get further away from baseline, within the Single Market. No deal is the scenario with the most significant increases in tariff equivalents across all sectors, with the average change from baseline to no deal being an increase of 14.51% across all of the sectors combined.

Figure 6: Northern Ireland’s exporting relationship with Ireland under all scenarios

Sector	Baseline	NI SM	Norway	CETA	No Deal
Accounting services	4.42	4.42	4.42	18.44	18.44
Air transport	11.59	11.59	11.59	26.80	34.25
Architecture services	2.19	2.19	2.19	10.33	17.34
Broadcasting	4.16	4.16	4.16	16.04	16.04
Commercial banking	4.81	4.81	4.81	19.08	19.08
Computer services	0.00	0.00	0.00	16.14	24.24
Construction	2.35	2.35	2.35	11.97	14.88
Courier services	10.86	10.86	10.86	29.71	35.44
Distribution services	6.12	6.12	6.12	10.38	14.53
Engineering services	0.00	0.00	0.00	7.61	13.60
Insurance	0.00	0.00	0.00	13.43	14.65
Legal services	7.63	7.63	7.63	13.06	18.56
Logistics customs brokerage	0.00	0.00	0.00	9.95	12.98
Logistics storage and warehouse	2.84	2.84	2.84	10.34	13.81
Maritime transport	2.28	2.28	2.28	16.80	16.80
Road freight transport	1.00	1.00	1.00	10.20	16.70
Telecommunication	4.75	4.75	4.75	8.73	10.24

Source: Department for the Economy

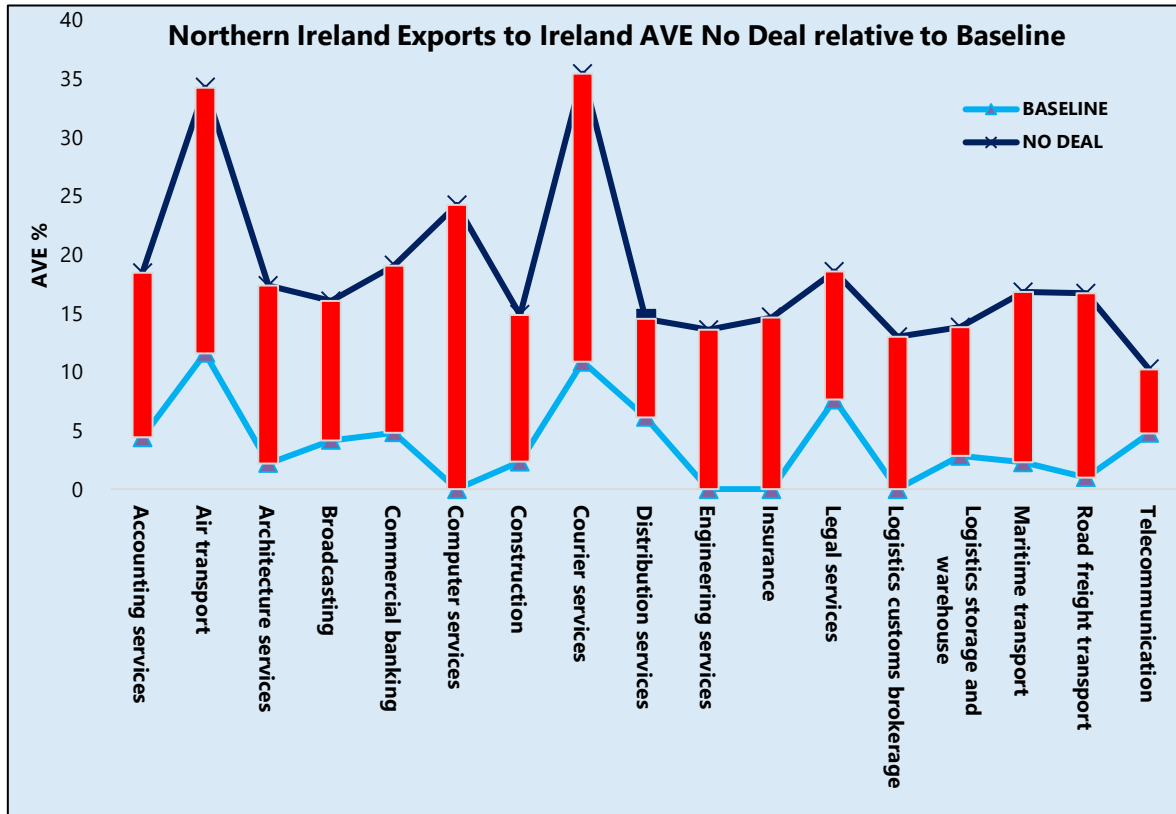
Impacts of No Deal on NI’s trading relationship with Ireland and the rest of the EU

In the event of no deal, the policy treatment for NI exporters to the EU reverts to Most Favoured Nation (MFN) policy settings. MFN policies are significantly more restrictive than current policies.

The STRI research found that a no deal scenario would result in substantial changes in the ability of NI firms to access service markets in the EU. This results in a significant decrease in NI firms export competitiveness. The chart below shows the changes in tariff equivalents from baseline to a no deal scenario.

In the event of a no deal scenario, the STRI research identified the following sectors as potentially experiencing the largest difference in AVE (tariff equivalents) relative to baseline; courier services (10% to 35%), computer services (0% to 24%) and air transport services (12% to 34%).

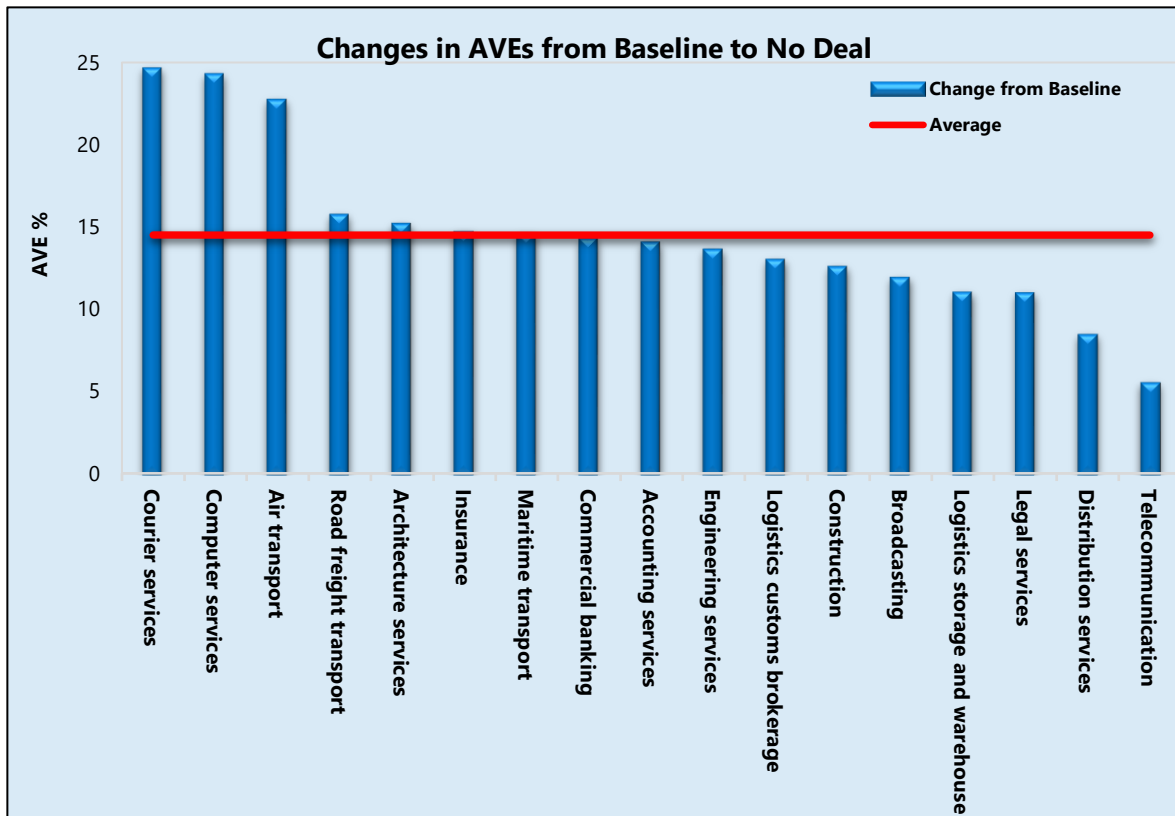
Figure 7: Northern Ireland's exports to Ireland in no deal relative to baseline



Source: Department for the Economy

The chart below shows those sectors which could potentially face the largest changes in tariff equivalents in a no deal scenario.

Figure 8: Changes in AVEs from baseline to no deal



Source: Department for the Economy

It is worth noting that computer services, engineering services and insurance all have a baseline score of zero under the baseline indicating the absence of restrictions to services trade between NI and Ireland. However in the event of a no deal, the tariff equivalents increase to 24%, 14% and 15% respectively.

1.6 Conclusion

Services trade is a key driver of economic activity within the NI economy and potential changes to businesses ability to engage in trade could have significant impacts on the survival of firms, employment within those firms and impacts on the wider economy. The research shows that the further away NI's trading relationship with the EU gets the more restrictive and costly trade could potentially get. The research shows that in a no deal scenario, all sectors will be face a significant increase on trade restrictiveness with sectors including computer service, courier services and air transport experiencing the most pronounced increases in tariff equivalents.

1.7 Next Steps

DfE hope to use both this research and the data published in the OECD's Intra EEA STRI report⁹ to provide an illustration of how possible exit scenarios could potentially result in changes to the regulatory environment in which those businesses engaging in tradable services currently operate.

⁹OECD