

## Brexit: Battle over Irish border threatens EU-UK trade talks



*Dublin, rattled by prospect of damaging its €65bn annual trade with its biggest market, could derail negotiations*

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Nestled on the southern coast of Ireland, Cork is more than 300km from the Northern Irish border that has emerged as a flashpoint in bitter Brexit talks between Dublin, London and Brussels.

Yet as a hub for multinational tech and healthcare companies from Apple to Pfizer, using shipping links with Britain as a gateway to Europe, Ireland's second city is fast discovering that it too has much to lose from Brexit. Two-thirds of the major exporters in Ireland ship goods via

Britain on their way to European and global markets, according to the Irish Exporters Association.

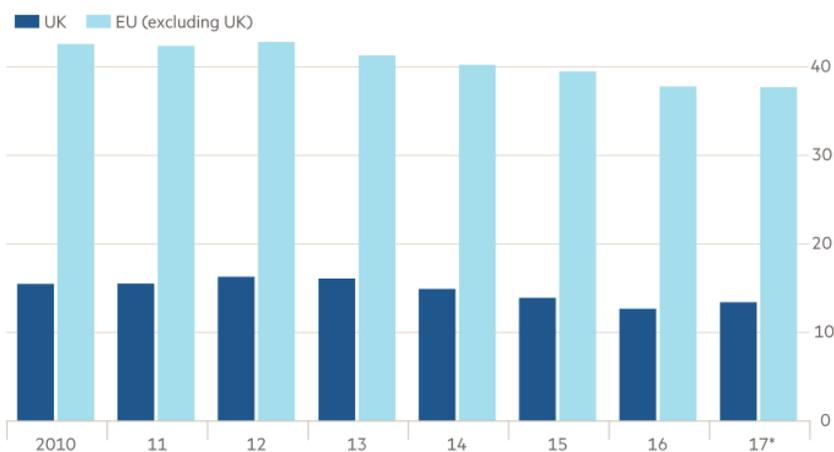
“Businesses are starting to get very nervous,” says Brendan Keating, chief executive at the state-owned port of Cork. “We can’t sit on our hands.”

Transiting through Britain allows companies to take advantage of short sea crossings from Ireland, extensive UK motorways and the Channel tunnel to France. Crucially, the absence of border checks saves trucks time at British ports. But with Theresa May’s government committed to leaving Europe’s customs regime, there are concerns that longer queues and higher costs could damage an Irish economy that still bears the scars of the financial crisis.

“We have to assume the worst-case scenario, which is a hard Brexit and a new customs regime for dealing with the UK, anything better than that is a bonus,” says Mr Keating, who is exploring new shipping links to Spain and France.

## Irish goods exports

As a share of total trade



Source: Central Statistics Office  
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\*Year to August

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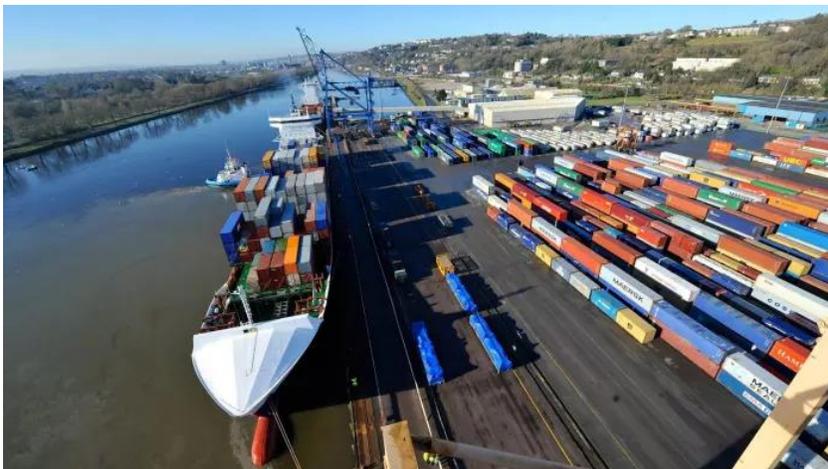
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The stakes could hardly be higher. Dublin, more exposed to Brexit than any other EU member, is rattled by the prospect of damaging bilateral trade with the UK, the country's biggest market, worth €65bn in 2015. But as well as the potential economic pain it also threatens to disrupt the Northern Ireland peace process and the border that divides the Republic of Ireland from the north.

To minimise risks, Dublin needs to maintain strong ties with its nearest neighbour and help keep it close to the EU after Brexit. But relations with London have sunk to their lowest point for many years as Leo Varadkar, Ireland's 38-year-old prime minister, presses Mrs May, his UK counterpart, to go down the route of a softer Brexit that would blunt the fallout in Ireland.

Despite intensive diplomatic efforts to break the impasse, the widening gulf is all too clear. Mrs May, weakened by cabinet infighting and lacking authority after a disastrous election stripped her of a parliamentary majority, insists she had a good discussion on Brexit last week with Mr Varadkar. But afterwards he wondered aloud whether London had "thought all this through".

Officials briefed on the meeting were told it was a testy encounter between two leaders who badly lack rapport. It is a problem Brexit negotiators are looking at with growing alarm as they race to cement a deal over the next 20 days. One miscalculation from either side could sink the prospects of a deal in December, with potentially far-reaching consequences not just for Ireland or the EU-UK relationship, but for the longevity of Mrs May's premiership.



*Cork port: its operator is looking at establishing links with Spanish and French ports*

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Mr Varadkar, who took over a minority government in June, is under pressure to bolster his authority as leader before seeking his own mandate in an election that could come next year. As such he cannot be seen as a pushover in highly sensitive talks that will determine Ireland's relations with Britain and Europe for decades to come.

"What will define his premiership?" asks Brian Hayes, an MEP and a key Varadkar supporter. "At the top of the pile is Brexit in terms of what the government negotiates. This is so important to Ireland, getting a good outcome for him is absolutely crucial."

Relations between the UK and Ireland have improved hugely since the 1998 Good Friday peace agreement that ended the sectarian conflict in Northern Ireland. The UK wants to lean on these ties in its talks with Europe, prompting concern in Brussels that London will attempt to use the peace process as a bargaining chip. Dublin accepts it can be Britain's "closest friend" in the EU as the Brexit talks develop, but only if its own issues are tackled first.



*Border presence: a disused customs guard hut in Newry, Northern Ireland © Getty*

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Central to the drama are arrangements for the Irish border, one of three priority areas identified in the first phase of divorce talks between Britain and the EU. With a new financial offer on its separation bill expected soon from Britain and a deal in sight on citizen rights, the deepening rift between London and Dublin has raised concern that the Irish question could become the most intractable of all.

Mrs May is urging the EU to close the divorce negotiation and open trade talks at the summit in Brussels next month. Yet Mr Varadkar has threatened to veto that timetable and hold out for a deal until the new year, further delaying the start of trade talks and the negotiation of a transition into post-Brexit arrangements between the EU and the UK.

“He [Varadkar] has made it clear that he doesn’t want to use the veto, but at another level he has made sure that there cannot be sufficient progress in the talks, until there is much more clarity from the British on the Irish-specific issues,” says Mr Hayes.



*Irish premier Leo Varadkar has threatened to veto the timetable for an EU-UK Brexit deal and hold out for an agreement until the new year © Reuters*

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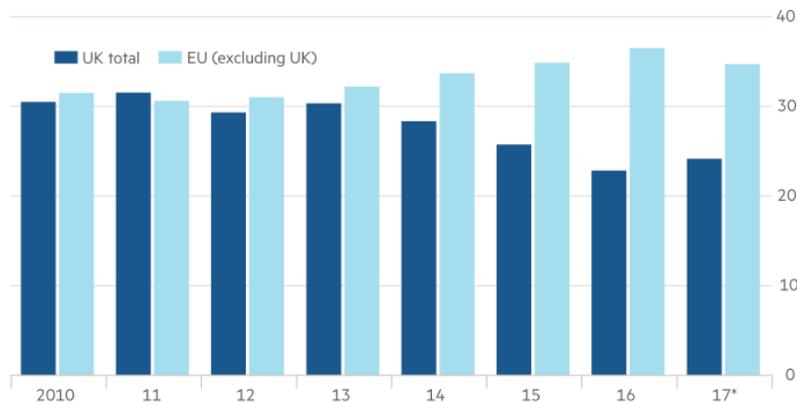
The dispute centres on worries that any new customs checks along the border would undermine the Good Friday deal that removed security checkpoints from the frontier. Dublin wants to avoid anything that would undercut north-south co-operation in more than 140 areas as diverse as mutual recognition of medical prescriptions, animal inspections and trade in goods such as bottled gas — all of it underpinned by EU rules.

Dublin’s demands are couched innocuously, but it wants Britain to agree that there should be no divergence in regulations that would force the reimposition of a border across the growing “all-island” economy. The political implications are highly sensitive. Any regulatory borders would be within the UK, giving Northern Ireland a special status that, over time, would track more closely the EU single market and customs union than Brexit Britain.

Worryingly for Mrs May, the Democratic Unionists, the Northern Irish political party that she relies on for her governing majority, are implacably opposed to such an arrangement. This limits her room for manoeuvre on Ireland just as Brexiters in her cabinet and party are ready to pounce on any compromise that lessens the amount of power London takes back from Europe.

## Irish goods imports

As a share of total trade



Source: Central Statistics Office  
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\*Year to August

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Ireland is thinking about more than just the border. The prospect of the region remaining in the EU customs union and internal market while the rest of the UK leaves would do nothing to protect Ireland's east-west trade with Britain. The overwhelming interest for Mr Varadkar is a deal that means little or no change to current customs arrangements throughout the UK.

"I think that we're going to see very trenchant and dogmatic positions by the Irish government over the next four weeks," says Lucinda Creighton, a former minister for Europe in the Irish government. "There has to be something very meaningful by way of a commitment from the UK [over] there not being a physical border post-Brexit."

Ireland will, however, have to be careful not to push too hard. Any failure to strike an EU-UK trade deal would be catastrophic for Dublin — at least 38,000 Irish companies do business in Britain — as London well knows.

Mr Varadkar's tough stance is in keeping with the escalation in Irish Brexit diplomacy since he took office and the calculation that the run-up to the summit is the moment of maximum leverage for Ireland before other member states turn their attention elsewhere.



*UK prime minister faces a crucial summit in Brussels in December © Getty*

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Bertie Ahern, former Irish premier, says Ireland will have “little power” in the next phase of the negotiation. “If anyone in this room or anywhere else expects when it comes to the cold light of day on trade issues that the EU27 will break up over anything to do with us [Ireland] — well, Christmas isn’t coming this year folks,” he told the British Irish Chamber of Commerce last week.

Mr Varadkar took power one week after the UK general election that led to Mrs May’s alliance with the DUP and added to the pressure on Dublin. “There is serious concern on our side, that is clear, at the continuing problems the UK is having in terms of what they want and [political] stability,” says a close Varadkar ally.

According to a senior Irish figure, the hardening stance can be traced directly to the UK election as it weakened Mrs May’s power to strike compromises with her own party and in the EU talks. That raised questions about whether the UK premier would backtrack on her original plan to leave the EU customs union, as many in Dublin and Brussels had hoped, or enter a customs arrangement broadly similar to the existing one.

That would avoid the need for border checks. Crucially for Ireland, it would also ease the threat to east-west commerce. For Brexiters, a move down that road would threaten the UKs capacity to agree meaningful trade deals that would give it a competitive edge over the EU.



*Michel Barnier, the EU's chief Brexit negotiator, at the Irish border in County Monaghan earlier this year © AFP*

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The Brexit department in London has suggested that one option for avoiding a hard border is to pursue “an agreement on regulatory equivalence for agri-food, including regulatory co-operation and dispute resolution mechanisms”. The suggestion, in a position paper published in August, hints at an eventual alignment between London and Dublin.

But whether Ireland’s EU partners accept such compromises is open to question. Dublin has the full support at present from EU negotiators, but it is not unconditional. France and other countries with big trade ties to the UK worry about Ireland carving out special arrangements which damage the integrity of EU law in an area such as health standards, or offer Dublin a competitive trading advantage.

“The borders have to be clear. Otherwise you could set up shop in Northern Ireland and have your cake and eat it. Free access to the UK and free access to the EU,” says one senior EU figure involved in Brexit. “If I were a Japanese semiconductor factory, I would go and set up in Belfast. Perhaps the Brits can live with that, and perhaps the Irish can live with that. But the French will definitely not be willing to live with that.”

Senior diplomats believe clever drafting may pave the way for a first-phase deal in December. But many believe that will not be the end of the road. “When I look at this border issue, all I see are hellishly complicated things,” says another senior EU official working on Brexit. “And I don’t really see a lasting solution.”

For Dublin, the real value in preserving EU regulation in Northern Ireland is that such a move would make it more difficult for the rest of the UK to deviate from the same regulations.

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That this presents abundant political problems for Mrs May is obvious. But the Varadkar ally says: “The north-south dimension solves the east-west [UK-Ireland trade] one we think. If you solve the north-south issue then you capture the east-west.”

Ten years after the financial crash when Dublin was forced into an EU-IMF bailout, Mr Varadkar inherited an economy that is growing strongly again. Now business awaits its fate as Brexit looms.

Back at Cork harbour, Mr Keating has already opened talks with the Spanish ports of Bilbao, Santander and Gijón to provide a direct route to European markets for food, drug and tech exporters. He is also pursuing talks with port operators in western France.

“We know businesses are engaging with shippers, starting to be active in the market and looking at these kind of scenarios and how best to resolve them,” he says. “We feel that new shipping routes would help them.”