

Irish Border Revisited

It has been more than a year since the U.K. and European Union (EU) came to terms with the Withdrawal Agreement, yet questions remain on how it will impact Northern Ireland, which was granted an exception to remain in the EU. Having decisively voted 56% to 44% to remain a part of the EU during the Brexit referendum, it is unclear whether Northern Ireland allegiance lies with the U.K. or the EU.

The exception, which went into effect earlier this year, keeps the Northern Ireland economy in the EU to prevent a hard border between Northern Ireland and the Republic of Ireland. This has angered pro-British Unionists who believe that the exception ostracizes Northern Ireland from the U.K. and draws it closer to Ireland. As a result, the Unionists have protested the decision and violence has erupted between competing factions in Northern Ireland. However, demographic trends have shown that the pro-British faction seems to be slowly dwindling, likely heightening concerns.

In this report, we will focus on the current relationship between Northern Ireland, the U.K., and the EU, and summarize the Good Friday Agreement. Next, we will discuss the impact of demographic changes on reunification efforts and what we expect to happen going forward. As usual, we will conclude with potential market ramifications.

Brexit and Northern Ireland

Concerned about the possibility of violence, the U.K.-EU trade agreement created a “soft border” between Northern Ireland and the Republic of Ireland. The Northern Ireland Protocol, as it is called, was put in place to avoid a return of checkpoints along politically sensitive frontiers, thus limiting the potential for disruptions of cross-border trade. Under this arrangement, Northern Ireland has to comply with EU trade and customs rules, meaning that customs checks were imposed on goods crossing the Irish Sea into the U.K. This agreement prevented the need for a physical border separating Northern Ireland and the Republic of Ireland.

Rules and regulations

Boris Johnson's plan

Northern Ireland stays in the EU single market for goods



(Source: BBC)

Due to the unusual circumstances and the political sensitivity, the agreement included

a clause that would allow either side to suspend the protocol. In the event that either the EU or the U.K. believes the arrangement is causing “economic, societal, or environmental difficulties,” one side can unilaterally introduce checks on goods being transferred to and from Northern Ireland by enacting Article 16 of the protocol. Earlier this year, the [EU enacted the article](#) following a dispute with AstraZeneca (AZNCF, \$107.10) over unfilled vaccine orders, although it eventually reversed its decision, ascribing its implementation as a misunderstanding.

Pro-British Unionists viewed the implementation of the Northern Ireland Protocol as an act of betrayal. In their view, the protocol will push Northern Ireland closer to Dublin and away from London. It is true that goods traveling from Ireland to Northern Ireland face no checkpoints to entry, [while goods coming from the U.K. now do](#). Thus, the protocol makes it difficult for Northern Ireland to do business with the U.K. and hinders its ability to maintain its relationship with the sovereign. The Unionists voted overwhelmingly to leave the EU back in 2016 and the group’s refusal to support the backstop facilitated PM Theresa May’s downfall. In a sign of its discontent with the protocol, the Loyalist Communities Council, a group that represents several loyal paramilitary groups, formally [withdrew its support for the Good Friday Agreement](#) in March. Although largely symbolic, this move may have paved the way for the violence we are seeing in Belfast today.

The 1998 Good Friday Agreement

Signed in 1998, the Good Friday Agreement is credited with ending Northern Ireland’s three-decade history of violence, called the Troubles. Until recently, the agreement has been viewed as a success as it appeared that

all three sides—the U.K., the Republic of Ireland, and Northern Ireland—were willing to uphold it. The five main provisions of the agreement are as follows:

- The agreement recognized that Northern Ireland would remain a part of the United Kingdom as long as the majority of the people within the country supported unification.
- The Irish Constitution was amended to accept that Northern Ireland was now a part of the U.K. Additionally, U.K. laws were amended to support unification.
- A poll would be commissioned by Northern Ireland at an unspecified time as to whether it can rejoin the Republic of Ireland. If the majority of the people within Northern Ireland supported reunification, both governments would honor that decision and change their respective laws to facilitate the transition.
- Northern Ireland citizens would have birthrights in the U.K. and Ireland. As a result, they have the right to carry passports from both countries if they so choose.
- Paramilitary groups on both sides agreed to disarm and decommission.

As is typical with frozen conflicts, the agreement featured vague and ambiguous language designed to appease both sides, while avoiding the appearance of any radical change in the status quo. Both sides can say they received the best end of the deal, even if the agreement is one-sided. In this case, the Unionists were able to say that Northern Ireland was now officially part of the U.K., while the Nationalists were granted the ability to hold a referendum to rejoin Ireland sometime in the future. Another typical characteristic of frozen conflict agreements

is a lack of trust in the third-party brokers. Unionists have long suspected that the U.K. may not have their best interests in mind. Therefore, they were more reluctant to support the agreement than their counterparts. Of those who voted, almost all Catholics, who are traditionally Nationalists, supported the agreement compared to [only 52% of Protestants](#), who are traditionally Unionists.

Unionist Party's Waning Influence in Northern Ireland

[When one-third of Unionists](#) supported leaving the EU in 2016, they did so with the understanding that supporting Brexit would help distance Northern Ireland from the Republic of Ireland. Five years later, it has become obvious that was a serious miscalculation on their part. The current arrangement not only makes it harder for Northern Ireland to purchase goods from the U.K., but it also makes it more convenient to purchase goods from Ireland. This is likely the reason why cross-border trade between Northern Ireland and Ireland has increased dramatically over the last few months. Northern Ireland imports from the Republic of Ireland rose 40% from the prior year.

As Northern Ireland supply chains become more integrated with Ireland, the justification for its separation will likely wane. Unionists have already seen their influence diminish over the last few years, and, as time progresses, the likelihood of Irish reunification becomes more probable. In 2019, [Nationalist parties won more seats than Unionists](#) in the U.K. elections for the first time ever. Nevertheless, it appears that Unionists still maintain a [slight edge in support](#), but that could change in the coming years. For starters, demographics have shifted dramatically since Northern Ireland's founding over 100 years ago.

For a long time, [Irish Protestants outnumbered Catholics 2-to-1](#). At the signing of the Good Friday Agreement in 1998, the Protestant majority had narrowed to slightly below 6% (45.6% to 40%). Now, Catholics are [expected to outnumber Protestants sometime this year](#). Even though all Catholics aren't necessarily Nationalists, just like not all Protestants are necessarily Unionists, religious affiliation has proven to be a reliable indicator of sentiment regarding Irish unification. Hence, the rise in the Catholic population will likely undermine the Unionists' ability to stop unification from happening.

As a result, the Good Friday Agreement has come under extreme pressure. Violent splinter groups have already begun popping up since the Brexit deal was implemented last year. As of late, these groups have been wreaking havoc in the capital city of Belfast. In February of this year, the number of [casualties resulting from paramilitary-style shooting hit a two-year high](#). In April, violent demonstrations in Belfast left [88 police officers injured](#).

Short of holding another Brexit referendum, which is extremely unlikely, there is probably not a lot the U.K. could do to prevent Irish reunification. Under the Good Friday Agreement, the secretary of state for Northern Ireland can call for a referendum when there is likely a majority of people in Northern Ireland that supports unification. Although there is nothing in the agreement that specifies what "likely" means, it is assumed that if multiple surveys show a consensus favoring unification then a referendum should be held. Currently, only a [few polls suggest that reunification has enough support in Northern Ireland](#). However, as mentioned above, support for unification is likely inevitable as Catholics begin to become the majority. If Northern

Ireland decides to rejoin Ireland, there is also the possibility that Scotland could follow suit and leave the U.K.

United Kingdom Falls Apart?

Although the U.K. operates as a unified, sovereign state, it consists of four individual countries: England, Scotland, Wales, and Northern Ireland. Out of the four countries within the sovereign, England and Wales voted to leave the European Union, while Scotland and Northern Ireland voted to remain. Although the U.K. technically controls the process of holding a referendum, this hasn't prevented a state like Scotland from holding a separate vote anyway. Brexit has likely created more interest in a referendum due to concerns that the U.K. lacks the leverage to negotiate better terms than the much larger EU.

Losing Northern Ireland likely wouldn't hurt the U.K. economy too much, but that would not be the case for other nations in the EU. Thus, the EU may be uncomfortable with the precedent that would be set if Northern Ireland or Scotland left the U.K. Although the EU has insisted that breakaway states within the bloc, such as Catalonia, would have to reapply if they seceded from member countries, this may not hold true for countries seceding from former member countries. In the case of Northern Ireland, if it rejoins the Republic of Ireland then it would automatically be admitted into the EU as it would be joining a member country. Thus, Northern Ireland's exit from the U.K. could provide a framework for Scotland if it voted to leave. Scottish people voted strongly to remain in the EU in 2016 and were only convinced to remain in the U.K. after the EU warned that Scotland would need to reapply if it seceded. As a result, there have been calls in Scotland to hold another referendum. But, now that the U.K. is out of the EU, remaining in the sovereign

is now less attractive. As a result, a potential Irish reunification could also lead to the devolution of the U.K.

Ramifications

Unionists have taken to the streets in response to mounting frustrations regarding the Irish Sea Border. Their outrage has been linked to their fears that Northern Ireland will eventually rejoin Ireland. As a result, there are growing concerns that the country could return to the Troubles period of violence as conflicts continue throughout the region. Many have died as a result of Northern Ireland remaining in the U.K. Therefore, the U.K.'s decision to support the checkpoint on its goods entering Northern Ireland was viewed as a sign of betrayal in the eyes of many Unionists and has likely put the Good Friday Agreement under threat. Although Prime Minister Boris Johnson has stated that the checkpoints have not worked out the way he intended, he has only supported a [“sandpapering” of the protocol as opposed to its absolute removal](#). Thus, we suspect it is unlikely that he will remove the protocol at all.

This situation is likely to turn more violent in the coming months as there are no easy solutions to resolving the conflict. Because both Ireland and the U.K. have come out against a possible reunification referendum, financial markets have shrugged off recent events in Northern Ireland. In addition, polls still suggest that pro-Unionists remain in the majority. However, as tensions escalate, this will likely be harder for markets to ignore. In the event of continued widespread violence, we expect Irish and U.K. financial assets to be vulnerable. Additionally, if Northern Ireland and Scotland were to secede, these changes would negatively impact the U.K. economy as it would have less leverage to negotiate trade agreements. For example, the U.S. has intimated that if

the Good Friday Agreement fails, it is unlikely that Congress would support a free trade deal with what remains of the U.K.

In addition, the fate of U.K. sovereign debt may hang in the balance. Current borrowing includes the economic power of Northern Ireland and Scotland. If these areas separate, negotiations will require some allocation of the current U.K. debt to those nations. Bond

holders and rating agencies would likely raise concerns, which probably leads to a weaker GBP and higher “rump” U.K. interest rates. The Republic of Ireland would face similar issues as creditors would have to decide if adding Northern Ireland improves or weakens Ireland’s credit.

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