

THE BROOKINGS INSTITUTION

SAUL/ZILKHA ROOM

THE CHALLENGE OF BREXIT:
A CONVERSATION WITH IRISH FINANCE MINISTER PASCHAL DONOHOE

Washington, D.C.

Monday, November 13, 2017

PARTICIPANTS:

Introduction:

AMANDA SLOAT
Robert Bosch Senior Fellow, Center on the United States and Europe
The Brookings Institution

Keynote Remarks:

PASCHAL DONOHOE
Minister for Finance, Public Expenditure, and Reform
Ireland

Conversation:

AMANDA SLOAT, Moderator
Robert Bosch Senior Fellow, Center on the United States and Europe
The Brookings Institution

PASCHAL DONOHOE
Minister for Finance, Public Expenditure, and Reform
Ireland

DOUGLAS A. REDIKER
Nonresident Senior Fellow, Global Economy and Development
The Brookings Institution

* * * * *

P R O C E E D I N G S

MS. SLOAT: Good afternoon, I'm Amanda Sloat, Robert Bosch senior fellow in the Center for the United States and Europe here at Brookings. On behalf of everyone at Brookings, it's a pleasure to welcome all of you and especially Paschal Donohoe, Ireland's minister for finance and public expenditure and reform to today's event. I'm also delighted to welcome an old friend, Ireland's recently arrived ambassador, Dan Mulhall, who I had the great pleasure of getting to know 20 years ago when he was Ireland's first consul general in Edinburgh and I was a wide-eyed Ph.D. student there. (Laughter)

Today's event is part of the Brookings Bosch Transatlantic Initiative, which is a new multi-year project of applied research and programming to reinvigorate transatlantic collaboration on global issues. We are grateful for this new partnership with the Robert Bosch Foundation, which is making these efforts, including today's event, possible.

There's been significant press coverage of Brexit in recent months, with the U.K. serving its withdrawal notice in March and negotiations beginning in June. Amid the discussion of the divorce bill and the rights of EU citizens living in the U.K., there has been less attention paid, at least in the United States, to the implications of Brexit on Britain's nearest neighbor, Ireland. We hope to rectify that today during our time with Ireland's finance minister, as well as to hear a bit more about how his government sees U.S.-Irish bilateral relations.

Minister Donohoe has devoted his career to public service. He assumed his current position in June 2017, having previously served as minister for public expenditure and reform, minister for transport, tourism and sport, and minister for European affairs. He was elected to the Irish Parliament in 2011 and previously served in the Irish Senate and Dublin City Council. After the minister's keynote, my colleague, Doug Rediker, and I will join him on stage for a discussion before opening up to take some questions from the audience.

My colleague, Doug, is a nonresident senior fellow at Brookings's Global

Economy and Development program and has vast experience in leading financial institutions, as well as service on the executive board at the IMF. So between the two of us, we should have some good economic and political questions for the minister. So without further delay, I am delighted to introduce Minister Donohoe. Welcome.

(Applause)

MINISTER DONOHOE: Very good, thank you. Well, good afternoon, ladies and gentlemen, and thank you all very much for the opportunity to be here and for attending this event to allow me to share on behalf of the Irish government our observations in relation to Ireland, the European Union, Brexit, and the nature of the evolving transatlantic relationship. It's, of course, a great pleasure and a great privilege to be here in the Brookings Institute. It is, of course, one of the foremost institutions of its kind across the world and I think one of the reasons why it is, is its unrivaled capacity to assemble expertise, to assemble different points of view together, and it's a great, as I said, privilege to be here this afternoon to be participating in such a session.

To begin with the challenge of Brexit, to offer observations in relation to the nature of that exit, the challenge that it will mean for Ireland and for the Irish country, I want to begin by acknowledging the degree to which it is one of the overarching challenges which Ireland will face now across the coming years. The British exit from the European Union will be a defining moment in the relationship between Ireland, the U.K., and obviously the European Union. And I want to speak brief -- briefly about what that exit will mean and what the consequences of it will mean that will require careful management over many, many years.

So first, if I touch on the nature of the relationship between Ireland and the U.K., while Ireland's trade with Britain has dropped from around 50 percent of our national output in 1973 to 17 percent today, it is still our largest single national trading partner. Estimates vary a little bit, but over 110 million border crossings took place between Ireland and the U.K. in 2016.

Irish people crossed the border for vacations, for university, for work, and even for marriage. So, we share with the U.K. not just trades, but we also share language, we share history, we share culture. We also share the very hard won, peace process in Northern Ireland. So, these negotiations and this exit really matters for Ireland and our priorities in that exit are very, very clear.

First, we must protect the peace process. Second, we must ensure there is no introduction of a hard border on the island of Ireland. Third, we must maintain the common travel area between Ireland and the U.K., in other words, the ability for citizens of either country to move backwards and forwards between Ireland and the U.K. And finally, we must ensure that there are effective transitional agreements and arrangements leading to the closest possible trading relationship between the U.K. and the EU. Now, this is a great challenge, but we do believe it is a challenge that Ireland, the U.K., and the EU are capable of responding to.

And in Ireland, we've already taken some very important steps to prepare our economy for this level of change. And these include measures that were announced in our recent budget, which I did a number of weeks ago, and in our current trade and investment strategy. And this kind of preparation includes a new capital plan for our country to look into the next decade, revising our enterprise policy to set as longer-term objectives and ambitions for enterprise growth and for job creation in Ireland. We're in active discussions with institutions such as the European Investment Bank to look at how we can increase new sources of investment into Ireland. Our enterprise agencies continue to work also with a very wide range of companies, helping them to deal with Brexit, making them more competitive, diversifying their market exposure, and upscaling those who work for these companies. And finally, we will continue to take measures to ensure that our national finances are as resilient and as stable as possible to deal with potentially unknowable shocks.

However, there are lessons to be learned from Brexit for all of us in Europe

because it represents a choice by a very substantial portion of the British electorate in a fully developed member of the global community to turn away from an interconnected Europe. It is a choice by them to try to turn back the clock on some of their very closest international relationships. There has been a very significant analysis since Brexit that suggests that the vote itself was in part a reaction to increased globalization. And I'm sure many of you have read similar analyses elsewhere that point to the rise in so called populism being part of a backlash against the perceived economic injustice arriving from globalization and global trade, and all of the difficulties that have developed in relation to the distribution of resources from both.

And this isn't just an issue within Britain, nor is it confined indeed just to the English-speaking world. Right across the globe, many countries with very different economic and political situations are seeing a growing number of their voters ask the question, "What is there to hold onto in a world that is moving so quickly?" Many are examining, and indeed some are rejecting, the political and economic orders and frameworks that would in Europe many have ordered, served as well. And, of course, one of the increased challenges about this is, it's a particular challenge for dealing with Brexit, is does the U.K. enter debate in relation to the European Union and globalization? Of course, one of those countries that were the anchors of the development of that kind of economic and political order and a country that would seem to have benefitted from the very order that they were part of.

Some of you, and indeed many of you, may be aware of the work that Dani Roderick has done from the John F. Kennedy School of Government at Harvard University. And he made the point that until recently, it looked as if we were on a predictable course of action. It looked as if we were on a path where advanced democracies will continue to be led by a certain kind of centrist politician who would try to address inequality and exclusion at home while remaining committed to open national and international economies, because this was the way these kind of challenges were responded to in the past. While I think what we're

increasingly learning is those kind of assumptions are just that, they're assumptions, and they're conventional assumptions. And this is one of the big lessons that people like me, a European and an Irish politician, has to reflect on from the challenges of Brexit. Because what we saw in some elections across Europe is very clear questioning and challenges to what were then seen to be settled economic and political approaches to social matters.

So, one of the lessons that I'm drawing from the debate that's now underway in Europe is that it's no longer enough to assume that what we need to do is just do a better communications job. It's no longer enough to assume that what our job is, is to better communicate the benefits of trade and globalization. It's not enough to believe that those kind of changes have lifted hundreds of millions of people out of poverty or have laid the basis for a kind of prosperity that has served Ireland -- I know this well -- and created, I do believe, a safer world. The two emerging lessons are first, that we need to make the case, and second, we now need to be aware of the policy interventions that are needed to address the issues that are at the cause of the levels of anxiety that led to results like Brexit, whether it be what we do educationally, what we do in capital investment, what we do in market such as housing in terms of how we retrain people, and the appropriate labor market interventions that will now be needed to deal with economies in whom change and flux is now a constant. And, of course, Ireland as a small open economy is, I believe, a good example of the positive benefits of globalization.

If you look at Ireland over the last 40 to 50 years, we went from being a protectionist, inward-looking economy to an economy that made a choice to be at the center of regional -- in our case, European -- economic and political integration, while also making choices to allow us to be a competitive and attractive source of investment in a globalized world. And that in turn has enabled a transformation in the living standards and in the prospects of Irish citizens. Within the European Union, our membership of the European Union, of the single

market and the Eurozone, has offered prospects to me, to my children that would have been unthinkable to the generation that went ahead of me. And then we have used our location, our geographic location, and then careful policy choices to ensure that we are an attractive and competitive location for foreign direct investment, and then made choices in terms of the investment that we've put in education to complement the fact that we have a young, growing workforce and a flexible workforce that wants to be part of a changing economy.

So, this does mean, for example, to use our relationship with the U.S. as an example of us, which every year our mutual trade between both countries is worth over \$100 billion. And if you take goods and services together, Ireland sells almost as much to the U.S. as America does to Ireland. There are about 150,000 people in Ireland employed by U.S. companies, but there are a hundred thousand jobs in America employed by Irish companies. There are -- when you factor in the rest of the U.K. then, you're looking at two of the most developed markets in the world with 800 million people looking to buy goods and services from each other. And I believe every opportunity is there for that relationship to grow stronger.

And while trade talks are, as you know, currently on hold, I very much hope that a transatlantic trade arrangement will be agreed in the future. And, of course, this will be particularly exciting for Ireland because we are uniquely placed for many reasons to act as a bridge between both huge economies. Because after all, Ireland is not just a member of the European Union, but is also a close friend of the U.S. Our ties go beyond commercial opportunities. We share a language, we share history and, of course, we share business. But, of course, no matter how strong that trading relationship is now, and no matter how much it grows in the future, we, of course, can't take it for granted that, that of itself will persuade people of the benefits of that form of trade.

Another matter that, of course, is becoming increasingly prominent and extremely important is the role of tax and international tax matters, which are often discussed in the

context of globalization. And, of course, there's much interest in these areas, both in Ireland, in Europe, and in the U.S. The recently published legislative proposals give us a growing amount of detail on the intentions of your Congress, as to what any reforms and changes may look like. And, of course, if these changes were to happen, they would represent a significant change from the current system under which the U.S. taxes, the global profits of U.S. multinationals, only when those profits are repatriated to U.S. at the full headline American tax rate. But, of course, what we still need to do, given the change that is on the way and given the fact that some of these proposals are quite recently published, is continue to understand them because the substantive detail of any final legislative agreement will be important.

But the implications of U.S. tax reform for Ireland and for the rest of the course therefore will, of course, depend on the nature of change that is agreed. And I am -- I am aware, of course, that Ireland is being mentioned in terms of this debate and the discussion on U.S. tax reform. And, of course, that's to be expected, given the very large number of U.S. companies that have chosen Ireland as the ideal EU location to invest in and trade from. However, as this goes without saying, U.S. tax reform isn't about Ireland; it's about modernizing U.S. tax rules. And it has been 30 years since the last substantial change as to U.S. tax code occurred and, of course, the global and national economies over the world have changed very much since then.

We believe that U.S. tax reform will help deal with many of the issues in relation to aggressive tax planning. And Ireland has taken action where we can, and it is in many areas, to respond back to changes that are needed in that area through our participation in global reform that is being enabled and led by the U.S. to ensure that international tax rules are up to scratch for the modern world. But the work that is ongoing in the OECD and we've used to work in the OECD to put that at the heart of changes we've made in our corporate and tax policy, is an essential forum within which this work needs to continue. And we are currently working

closely with some 100 countries in the OECD, including the U.S., to find evidence-based answers to the difficult questions that are opposed by the digitalization of the global economy. And as a small open economy connected to Europe, to the U.S., and the wide world, we're, of course, affected by changes in the international environment.

I do believe, though, looking at the debate that's underway, that this kind of change also brings opportunities. The right choice for Ireland is to continue our commitment to a corporation tax system that's competitive, that's transparent, and that's stable. One issue, however, that is clear is that our membership of the EU is and will remain a crucial factor in attracting investment from all over the world. Global business, whether it be American or elsewhere, will want to have operations in the EU and Ireland will remain very competitive and attractive as an EU location to invest in and do business from. Our tax regime and our 12.5 percent corporate tax rate will continue to be competitive while also offering long-term certainty to international business. And for the avoidance of any doubt, can I emphasize that we have no intention of either increasing or indeed reducing that rate.

No matter the issue, whether it be tax, whether it be trade, or Brexit, it's so important now that we're able to discuss the complicated realities of any situation, to debate the notions, to understand the assumptions that might shape our understanding of them. And it is the case that Brexit for Ireland does pose a huge challenge, but we are not in this alone. Our membership of the EU has been central to the success of our small open trading and competitive economy. Our membership of the single market, of the Eurozone, of a customs union is a core element of our economic strategy. Access has allowed our economy to prosper. Participation in structured globalization has allowed our society to be transformed through membership of the European Union. It has given us full access to EU trade agreements with other major markets. It has given us the capacity to engage in global free trade, which we couldn't do on our own. Examples of this include the recent trade agreement between the EU

and Japan, which will provide new opportunities for Irish exporters, including, for example, the farming community in Ireland. The EU is a home which Ireland has helped to build. And while there are many challenges, we are confident that we can work together as 27 countries to deal with them.

There will be challenges, but there will also be opportunities, and we'll work to deal with the first and take advantage of the second. Because following Brexit, Ireland will be the only country in the EU that is an English-speaking common law jurisdiction. We have a young, well-educated population, and the government continues to build a business-friendly environment for businesses large and small, foreign or domestic. It's, of course, easy to understand reactions, such as Brexit, as ones that are driven by an ever-changing and a complex world. But the world will continue to change and the role of the Irish government is to ensure that whatever the challenges, Ireland is ready to meet them and ready to overcome them. Thank you.

(Applause)

MS. SLOAT: So, everything we ask will be -- will be tame after that. Well, thank you very much, Minister, for a very interesting and comprehensive set of remarks. I wanted to press you a little bit on Northern Ireland. I lived in Belfast myself for three years and saw firsthand the hard one piece and also how tenuous the piece is there. So, we're currently facing a situation where it's been nearly 20 years since the Good Friday Agreement and also an unfortunate anniversary nearly a year since the power-sharing arrangements broke down in Northern Ireland. So, there's not currently a democratically-elected voice in Northern Ireland to participate in these talks and I share your concern about a hard Brexit. So, how do you see this playing out? I -- if there is a hard Brexit, as many of the pro-Brexit supporters wanted, it's not only psychologically devastating in terms of having the reintroduction of border posts and hard border controls, but also very economically difficult in terms of people who are moving back and

forth on a daily basis for commerce. So, I would be interested in flushing out a little bit your remarks on the Northern Ireland situation, how this plays out, and what you think can be done in these negotiations going forward to prevent this.

MINISTER DONOHOE: Well, it's the recognition of the very kind of challenges that you just described there that the Northern Ireland -- all the issues -- associates with Northern Ireland were placed by the European Union as being one of those issues that had to be dealt with in the first phase of negotiations between the EU and the U.K. So, for those who may have a concern about, "Will Northern Ireland get the prominence that it needs," I think it's very instructive to look at the fact that the group that has been representing the European Union in their engagement with Northern Ireland have the role of Northern Ireland and the issues related to Northern Ireland as part of the first bucket of issues that need to be addressed. And a huge amount of work went on from this government to get that level of recognition and it has happened. And it's the strong view of the Irish government that the best forum and format for these matters to be dealt with is through the broader side of engagement that would go on between the EU and the U.K.

Now, with that being said, nobody is under any illusion regarding how challenging these matters will be because this border on a very abstract level, leaving aside the practical and deeply difficult matters that would need to be dealt with, will now be a European border between Northern Ireland and Ireland. So, it will not be a bilateral border between two adjoining countries; it will be a border of the European Union. And our view on this -- on matters that could develop from us, it's not worth such a border to be hard in nature or were to be in any way similar to the kind of border that we've had in the past. It could have a profound effect on what has been achieved in the North.

So, in terms of how we would look to deal with that risk, there's a number of options that are open to us, including one that is open to the U.K. The U.K. could decide not to

remain members of the single market and they've made that choice. I think it's difficult to see how they could have remained in the single market if they've left the European Union. But they could still decide and it would be open to them to decide that they want to remain within the customs union? And if they remain within the customs union, more options open up for the management of that border. However, if they were not to do so, the indications are that is not a course of action they currently want to pursue. I think there would -- there will be other areas that we will work on through the EU in relation to, for example, how we can have regulatory convergence. So, for example, if the same set of regulations are managed on both sides of the border, it inherently changes the nature of that border itself. And secondly or more broadly, as the U.K. looks at what kind of customs policy it wants to move to, the closest it is to the kind of customs policy it has inside the customs union, the more options are opened up for dealing with the nature of the border. But this is a very demanding offer for the U.K., for the EU, and for Ireland, but we will be pursuing this as members of the EU in our negotiation with the U.K.

MR. REDIKER: Mr. Minister, you mentioned in your excellent speech the competitive tax regime that Ireland has in place today and obviously that's been central to the great economic success of Ireland. But there are two areas that are a bit sensitive, I think, in moving forward with the EU, one of which would be the ongoing situation with the Apple dispute, so I'd like to hear where you think that is and where it's going. And second of all, recently, I believe is President Macron has made as part of a broader reform of the European architecture. One of those premises for Macron is to harmonize taxes across Europe. What would you see that playing out as, as it relates to Ireland?

MINISTER DONOHOE: Sure. So, if I could offer -- emphasize some of the thoughts that underpin some of the points I made in my speech there, the first one is, is that Ireland believes that very large corporations and companies should pay their fair share of taxation. But I think it's really, really important to be clear about what our starting point is in

relation to it. Alongside us, we don't believe that Ireland has a small economy, albeit one that's very open. We can't fix all of this on our own. It needs to be part of a global journey and that global journey is being through, for example, the OECD. And over the last number of years, we have now dealt with issues within our tax code in relation to, for example, residency to try to significantly reduce the opportunities that are there for tax planning that isn't acceptable to democracies in countries all over the world.

So, that then leads me on to Apple and that leads me on to some of the proposals that are developing within the European Union. In relation to the Apple ruling, we disagree with the ruling that was made by the European Commission on this matter. Our contention is that the European Commission, the competition end of the European Commission, are now saying that Ireland should have taxed in the early 1990s, as we tax now. And the understanding of where we were in the early 1990s is very different to where we are now. We cannot be a global tax collector any company and we certainly weren't intending to or meant to be a global tax collector for Apple in the 1990s or up to that point. And we have never, nor will we ever, make any arrangements with any one company through our tax code. We've an impartial open tax code and indeed the OECD in their forum on global tax transparency have now given Ireland one -- what -- the highest rating possible.

All that being said -- and here comes the interesting part -- even though we disagree with the ruling of the European Commission on this matter, we're members of the European Union and we are playing by those rules because we are a Irish and a European country. And even though we might -- we profoundly disagree with the nature of the ruling, we will be bound by it while we are challenging it. So, we are currently engaged with Apple, we will collect the money from Apple, it will be brought into an account that will be managed, and we will do that because it's part of being members of a rules-based organization that is the European Union. And while we are doing that, we will defend ourselves against a case that is

being made to us because we disagree with this. In relation to President Macron, President Macron has, is, and will continue to be -- and even more so in the future -- a leader of huge European political importance and I think beyond that.

Some of the proposals that are underway in some parts of the European Union relate to countries losing their ability to set their own tax rates in particular areas. And we don't believe that is going to happen and the reason for that is, tax setting is a core part of economic sovereignty that is recognized by the treaties of the European Union in many areas of tax policy. So, within that format, we would continue to maintain our rights in that area, as virtually every other European Union country will do.

MS. SLOAT: I wanted to ask you about populism, which you mentioned in your speech. In some ways, you could make the argument that Ireland shouldn't be as susceptible to some of the forces of populism that we've seen in the U.S. and Europe. There's an argument that Ireland benefitted from globalization, as you mentioned in your speech, through large amounts of foreign direct investment. There's another argument that the economic boom hit Ireland a bit later in the 1990s, which makes you not as subject to some of the nostalgia that perhaps is plaguing some of these other countries. And yet, I saw you gave a speech this summer, soon after your new Prime Minister took office, speaking about leading a government of the New European Center. And in the speech, you were critical of Irish populism and said, "In Ireland in 2017, to be moderate is to be radical."

So, I wanted to ask you, is there Irish populism? Is it different from populism in the U.S. and Europe, and what does it -- what does it mean to be radically moderate?

MINISTER DONOHOE: Well, I think you should all settle in for the afternoon, now. (Laughter) So, where -- so, a few -- so, what is populism, I guess, is the first question. And I think populism is defined by a number of features. The first one is -- and there's a fantastic German political scientist from Princeton who's done a lot of work on this, so these are

his thoughts rather than mine, okay? But I think he hit the nail on the head.

Populism is defined by a politician saying that the only true representative of you is me and not institutions, and saying that the very institutions that are there to represent you instead betray you, and the only person who is capable of representing you is me. And this has been a form of populism within Europe that we have ample, ample experience of, both during our history and more recently. The next element of a populism within Europe that has acquired a growing potency is the idea that the way economies are organized, that they're only there to benefit the other and you will never get your chance at pursuing opportunities that countries will want you to -- that democracies will want you to have. So, I think there are the two elements of it that we have a lot of experience of within Europe.

Why hasn't that happened in Ireland? Okay. We have had the prospect of it happening at different points, but the reason why I don't think it has flourished is because of two factors. The first one is, we're a very small country and that means our institutions are very close to people. So, it is, you know, somewhat alleged that I'm -- many in Ireland, a lot -- many of my opponents in Ireland, you know, do argue that I'm a member of an elite. But it's very difficult to argue that I'm -- you know, I'm really a member of the elite if I live in the constituency that I represent, and that our political institutions are so open and accessible for those who are meant to serve. And at times, that has been a weakness of the Irish political system, but I think more recently the intimacy of our democracy has actually acted as a buffer against some other forces that could have been very destabilizing.

So, that leads to my recent claim that to be moderate is to be radical. And the reason why I made that point is, even though the kind of populism within Ireland has not caused the difficulties it has within other European Union countries, the pressures have been there. And one of the things that I always want to challenge is the idea that it's very brave to tell, for example, the Irish people what it is you think they want to hear. That's not brave. That's quite

an easy thing to do if you're a politician. And we have within Europe got ourselves into challenges recently where it's kind of, you know, it's all been about, "How can you make the strongest point?" And I've contend within Ireland that I think there's a growing amount of support for this, that we should try and make policy choices, that preserve certainty in Ireland, give predictability to what our economy can look like, and if you're small and open, that would generate the resources to do things for your society that you want to do. And that's the kind of thesis stuff I was looking to make in the speech that you quoted from.

MR. REDIKER: Thank you. In December of this year, you've got in Europe a European Leaders Summit where there are a lot of issues on the agenda.

MINISTER DONOHOE: Mm-hmm.

MR. REDIKER: I think that the U.K. perspective is, it's going to be about Brexit and whether "sufficient progress has been made," but there's another equally, if not more important, set of decisions to be taken about the future architecture of the EU in '27.

MINISTER DONOHOE: Mm-hmm.

MR. REDIKER: I wonder if you can just give your perspective on what we can expect to actually be discussed and where we go from here, post that meeting, and, you know, in the run-up to it.

MINISTER DONOHOE: So, my expectation is that the emerging area of focus within the European Union will be how we make the institutions and treaties that we have agreed, how we make them work in the best way possible. One of the unexpected political consequences of Brexit is that it has renewed political momentum within the European project, it has not set off a chain reaction, and that has coincided with the Eurozone moving into a period of economic stability that would have looked very, very unlikely a number of years ago. And the coming together of a rate of economic growth, which is an average around 2 percent in the Eurozone at the moment, with a renewed sense of political emphasis on maintaining what the

EU looks like and trying to make it work better, I think, would manifest itself in a renewed focus on how we make its treaties work better in the coming period.

And I believe the two areas you'll see that most likely to develop in are the areas of climate change and how we respond back to all of the challenges that a changing global ecology is bringing to us, and then at the second area, it would be how Europe completes a banking and capital union. And I think there are the two areas you'll see that begin to play out.

MR. REDIKER: And the -- sorry, just to follow-up. And evolved ESM, yes or no? And if so, what does it look like? ESM being the European --

MINISTER DONOHOE: Yes, so the ESM is the European Stability Mechanism, which is the font that is put in place to support countries and economies that get into difficulty and are not able to finance themselves on the open markets. I think the -- I think you will see far greater stability around the future of the ESM and I think it's virtually a -- in many ways, it's quite settles now that it's needed. I think where you'll see a growing role for the ESM will be as how it will act as a bank back stop to a banking union.

MS. SLOAT: I'm going to throw one more quote at you and (laughter) then we'll go to the audience for questions --

MINISTER DONOHOE: I hope --

MS. SLOAT: -- so.

MINISTER DONOHOE: -- this isn't from me, is this?

MS. SLOAT: It's -- this is -- no, it's not a quote of yours. It's a quote from your boss, from a teacher. He gave a speech earlier this year and he said, "When the U.K. goes, we will have lost a like-minded state with whom we were in agreement on many issues, so we will need to strengthen our other relationships and build new alliances."

MINISTER DONOHOE: Mm-hmm.

MS. SLOAT: So, my question is, who are Ireland's natural allies in the EU?

Small states, Western European states, some Southern European states that have gone through similar financial crisis? Who will be your new allies in the EU?

MINISTER DONOHOE: I -- well, I don't think it'll be a case necessarily of new allies. I think what -- it is the case though under many areas, for example, in relation to trade and competition. Many of our neighbors and friends within the European Union were quite happy to let countries like Ireland and the U.K. do the work on their behalf and make the public case that needed to be made. So, I don't believe it will necessarily be kind of, you know, brand new friendships be made. It's more the need for these friendships to be now more collectively vocal than they have been in the past. And more the case now that there will be an awareness that a big country has gone who would have had shared views on the trade with a number of other countries.

In terms of how I think this will play out, for example, I think you will see Ireland work even more closely with, for example, Nordic countries, with, for example, Baltic states, all of whom would have strong views in relation to benefits and trades, all of whom are small and therefore, have strong views in relation to the European Commission should work and how treaties should be interpreted, and all of whom believe very strongly in the benefits of multinational institutions like the European Union. And that is a growing area of now work in focus.

MS. SLOAT: I'm going to hold the line on English as a working language against French desires to scrap it?

MINISTER DONOHOE: I think the chances of English ceasing to be a working language in the European Union are pretty slim.

MS. SLOAT: So, I'll open it up to questions. Please state your name, your affiliation, and ensure it's a question rather than a statement. We have two gentlemen right here.

MR. LAFERLE: My name is Michael Laferle, I'm actually from Ireland; I work here with the World Bank. You touched on it, but when I woke up this morning, I was really taken aback to see that the negotiations in Belfast had definitively broken down. At least, that's the way The Irish Times projected it. So, could you give us a little bit more detail as to why after 10 years and now one year it is impossible for these people to come to an agreement? And secondly, whatever arrangement you work out with the European Union this winter, surely it must have the democratic support of the people of Northern Ireland to have sustainability.

MINISTER DONOHOE: Yeah. Well, Michael, thank you for your question. It is a deeply important point that Michael raises and you touched on it yourself that the devolved institutions now of Northern Ireland have not been in place for a year. At their -- at -- the factors that have caused those devolved institutions to not be in place actually don't have anything to do with the issues that I have been raising. They're a result of profound political disagreements within Northern Ireland are matters, for example, such as the status of the Irish language and the legal recognition that it gives. I believe it is so important for Northern Ireland that those institutions be resolved and be restored because at a time in which matters in relations to border are now at the heart of European politics, the institutions that are closest to the people of Northern Ireland are not in place. And I think that is something that across the coming period I hope can be fixed and restored.

I'm aware of the latest phase in the negotiations that are taking place in Northern Ireland, the -- where they currently stand, but I still do believe it is possible that as negotiations within the EU really intensify, I do believe it's still possible that the Northern Ireland institutions can be restored. But it will require a lot of work from our colleagues and all the traditions in Northern Ireland to make that happen. But Dublin will do all we can, as I believe London will, to try and make that happen, likely.

MS. SLOAT: Gentleman here in the aisle.

MR. BESSETTE: Mike Bessette, PBS "Online NewsHour." First of all, do you really think that these horrendously complicated Irish issues can be resolved by December so that they can go on to stage two, or are they going to have to -- to use an American expression - - punt? And secondly, according to (laughter) a British newspaper, the FT, you -- your government has proposed that no matter what ends up with the rest of the United Kingdom and Northern Ireland remain in the customs union and the internal market, how could a British government, especially as -- one as weak as this one, accept that three parts of its country are going to be in one economic deal and the fourth part will have a separate arrangement?

MINISTER DONOHOE: So, in relation to your first question, I believe it is vital that sufficient progress is made in December to allow movement to move on to phase two. But that's not just a view of the Irish government, that's the view of the European Union. They want to be reassured that enough progress is made in relation to a group of issues that includes Northern Ireland, but also includes, for example, the status of European citizens within the U.K., that enough progress is made in those matters to allow movement be made to the next group of issues that need to be dealt with, including the nature of a future trading relationship between the U.K. and the EU. An awful lot of work is now being done and needs to be done in advance of December. Do I believe those matters can and could be resolved within the European Union framework? The answer is they have to be because we're members of the European Union and we will remain members of the European Union. So, these issues have to be settled within the EU.

Sir, what was your second question?

MR. BESSETTE: Those about Northern Ireland --

MINISTER DONOHOE: Oh, yes. Of course. Look, that was part -- that was one of the ideas, that the -- our Prime Minister, Taoiseach of Ireland, he suggested a number of ideas at a speech earlier on in the year as been words that were worthy of examination and

debate. And we did so because at that point in time, and unfortunately, as that is the case, the institutions in Northern Ireland are not there, so we believed it was important to put ideas on the table. And at that point in time, the British government would decide in a way of what potential options could be. Since then, they've published their own paper on customs policy that contains other ideas in this, but we are going to have to be really imaginative and really creative to look at ideas regarding how this could be managed. And our Prime Minister was just putting forward some options in relation to that matter.

MS. POIRIER: Hi. I'm Leann Poirier; I'm a Master's student at George Washington University here. I was wondering what your views are on post-Brexit EU capacities for implementing, monitoring, and enforcing sanctions are, and which countries do you think will take the role of the U.K. post-Brexit?

MINISTER DONOHOE: Inter -- sanctions on who? In -- and in what policy area?

MS. POIRIER: In general, the sanctions capacity that the European Union has.

MINISTER DONOHOE: Economically?

MS. POIRIER: Yes.

MINISTER DONOHOE: Okay. Okay. Well, from a legal framework point of view, it's actually the Commission that play a role in determining the -- whether the economic performance of a country requires sanction. Because the U.K. was not a member of the Eurozone and is -- wasn't part of the decision-making process in relation to and it's the Commission that are, I don't believe that Brexit itself is going to have a significant effect on the sanction setting and then implementation ability of the European Union. And if I look now at many economies within the European Union at the moment, we are seeing a degree of change and some policy initiatives that I think are reducing the kind of economic developments that merit sanctions or require sanctions.

MS. SLOAT: I think I -- part of what she may be getting at -- and this is, I think, a

political question that we have in Washington -- is that the U.K. has tended to be quite like-minded in terms of the imposition of sanctions on other countries, Ukraine-related sanctions --

MINISTER DONOHOE: Oh, you mean --

MS. SLOAT: -- for example.

MINISTER DONOHOE: -- foreign policy? Okay, got it.

MS. SLOAT: So, on the foreign policy side, I think the question that a lot of people are asking in Washington is if we lose the U.K. as a like-minded enforcer of sanctions -- and I believe this may be what her question was --

MINISTER DONOHOE: Sorry.

MS. SLOAT: -- do you think some of the foreign policy sanctions are likely to be more lax, that there is going to be outliers within the EU, or there are going to be other countries that are going to step up and be enthusiastic supporters of sanctions --

MINISTER DONOHOE: My --

MS. SLOAT: -- the way the U.K. has often done.

MINISTER DONOHOE: My answer is broadly the same. I was a member of the -- I was the Minister of European Affairs at a point in which sanctions in relations to Ukraine were being -- and the Russian role with respect to Ukraine were being discussed and then decided. And there are enough countries who have strong views of this matter to offset the effect of Brexit.

MS. SLOAT: Based on the bilateral side, if you think Brexit's going to have an impact in terms of relations with the U.S., either in terms of looking for more trade, changing the political dynamics, is there likely to be any sort of impact, do you think, on the bilateral piece there?

MINISTER DONOHOE: I think the main change -- I think substantively the answer is no. I think relations between Ireland and America continue to be very, very strong

and very, very friendly and that has continued on to President Trump. Our members of the Irish government, such as myself, continue to have a lot of contact with your representatives and leaders within America.

I think the one area of change that is possible is economically, due to Brexit, where Irish companies that were looking for expansion opportunities that would traditionally have looked to the U.K. first for expansion are now going to see America in a different way. And I think the secondary could change, then, is I believe that countries that are located outside of Europe and companies that are located outside of our -- Europe, including America, Japan, many of the Asian countries that have high export elements to their economy, when they are now looking for access to the single market and they want that access to be based out of an English-speaking country, that now is now going to change because the U.K. have left. Ireland will be the only country that will meet that criteria. And I think there will be new developments, new potential developments for Ireland from an investment and trade perspective that will apply equally to American and other international investors and companies.

MR. REDIKER: There have been over the past year various leaders who have raised the possibility of Europe evolving on a multitier or a multispeed basis. I wonder if you've got a view on -- there's obviously strong opposition from some countries to even the concept of separating in any way, but whether multispeed, multitier, or steady as she goes is the likely outcome?

MINISTER DONOHOE: So, well, like, in a very profound level, we already have a multi-tier European Union project because we have the Eurozone and then we have countries who are not in the Eurozone. So, at the highest level possible, we already have tiering that has taken place. In the area of common foreign and security policy, we also have different levels of cooperation with different countries deciding to opt in and opt out, as they also do in the area of justice policy. So, we already in the three fundamental areas of European policy have the

option for differing levels of competition -- different levels of not competition, pardon me, cooperation, I should say, rather than competition.

In terms of potential for a multispeed Europe or a multitier Europe on an institutional level beyond that, I think it's something we should proceed with, with great care. And the reason for that is at the heart of a European project has been the concept of solidarity that all countries are in it equally together. And I think if you were to move at a pronounced multispeed or multi-tier Europe, it would offer the prospect of some countries moving further back versus others in terms of the engagement that they have with European institutions or with their neighbors. And I think in the long run, that might be difficult for the European project, but we should also acknowledge there's already, a lot of different levels of cooperation taking place and varying levels of cooperation.

MS. SLOAT: Well, I think we are -- is that a final? Got in just under the buzzer. We got one question back there.

MINISTER DONOHOE: Normally at this point now, lots of hands go up.

MS. SLOAT: I know. I know, and the hardest questions --

MR. PALMER: That --

MS. SLOAT: -- come, as well.

MR. PALMER: That was my plan all along. Good afternoon.

MINISTER DONOHOE: Good afternoon.

MR. PALMER: Quinn Palmer. I'm a Master's student with National Defense University working on strategic resourcing and national security policy. Should the border become hard, my question really rests with, what do you anticipate in terms of the effects or would it be a Frontex enforcement -- enforced border from the EU perspective or would you even --

MINISTER DONOHOE: Look, you know, it's something -- what -- it's something

that we are (inaudible), but firstly at the Frontex operation, tends to be associated with the maintenance of the Schengen area. And for the rest of you, when this is all finished, will explain to you in detail what all of these matters are. But that tends to be associated with the implementation of the Schengen area rather than anything else. Look, the consequences and difficulties of the development of the -- kind of a hard border that we had in the recent past divided would really be profound and there's an awful lot of effort on the way at the moment to try to create the environment in which that does not happen. But as I have said, it is -- it's a very, very challenging area, but it is a matter that has now been recognized by both the Irish and British government as something which neither government wants to return to. And now in the number of weeks, we will need to bring even more clarity to that shared commitment to see therefore, if it is possible to move on to other areas of engagement in the European Union with relation to what a post-Brexit, U.K. and EU will look like.

MS. SLOAT: And with that, I'm going to bring this session to a close. I want to invite you, should you ever tire of life in government and want to join us here at Brookings, to think about populism and perhaps help us develop our own --

MINISTER DONOHOE: I'll tell you, I might --

MS. SLOAT: -- radical moderate approach here --

MINISTER DONOHOE: I --

MS. SLOAT: -- in Washington. (Laughter)

MINISTER DONOHOE: I might take you up on that. (Laughter) And you've all heard that offer be made, haven't you? (Laughter) So, I might take you up on that.

MS. SLOAT: Well, thank you very much for a very frank and comprehensive talk.
(Applause)

MINISTER DONOHOE: Thank you. Thank you.
(Applause)

* * * * *

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2020