KPMG

Brexit

A Northern Ireland Perspective

Introduction

On June 23 the UK goes to the polls to decide whether to remain in or leave the EU. With a recent report by the Northern Ireland Assembly estimating that the local economy would lose over £750m as a result of Brexit and experience a 3% drop in GDP, the issue poses some unique questions.

We share a land border with the Republic of Ireland and cross-border trade is significant for many Northern Ireland based businesses. Annual cross-border trade for example is estimated at almost £2.3bn per annum. At the time of writing it is unclear which way the vote will go. However we at KPMG believe that businesses should consider the issues that they may have to manage in the event that the UK votes to leave.

The impact on Northern Ireland business of a decision to leave will vary depending on a number of factors. In the main this will be dependent on the extent to which a business benefits from the existence of the four main freedoms under which the EU operates – namely the free movement of goods, services, people and capital.

Also of note is the likely timeframe for negotiations in the event of a vote to leave and the eventual status of the UK's trading relationship with the EU. As there is no precedent for such a departure it is difficult to estimate how long it would take to negotiate trade agreements. The Lisbon Treaty allows for a period of two years but in reality this may take longer as evidenced by the average time frame for trade agreements negotiated elsewhere.

Furthermore the UK's subsequent relationship with the EU could take several different forms potentially similar to those that exist between the EU and Norway or the EU and Switzerland. Both these states make significant contributions to the EU budget and have EU market access but without any voting rights.

This brief document highlights just some of the Brexit related issues Northern Ireland business should consider.

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Brexit considerations for Northern Ireland

01

Exports - Northern Ireland is more dependent in terms of goods going into the EU than into the rest of the world. Some 55% of Northern Ireland's manufacturing exports go into the EU with the Republic of Ireland our largest export market.

02

FDI - it has been suggested that Brexit would make the UK (including Northern Ireland) less attractive as a FDI destination due to reduced access to the EU single market; and thus have a negative impact on economic growth.

03

Trade Treaties - in the event of Brexit, the UK's trading agreements with EU member states would be determined by EU negotiations that would apply to all EU states and there are several potential post-Brexit scenarios.

04

Exchange Rate Volatility - It has been suggested that a vote for Brexit could weaken sterling by a further 10 – 15%, a positive impact for UK exporters, but it could potentially raise the cost of imports resulting in higher prices.

05

Cross-border Trade - Estimated by the Economic and Social Research Institute (ESRI) at almost £2.3bn – some £1.4bn from North to South and £0.9bn in the opposite direction. The possibility of the reintroduction of border controls and associated delays is a potential inhibitor and additional cost to business.

06

Agribusiness - The Northern Ireland agribusiness sector is due to receive an estimated £2.1bn in EU aid between 2014 and 2020. There is no guarantee that in the event of Brexit that this loss of funding from Brussels would be replaced by similar funding from the UK government.

07

Timing - There is a two year headline timeframe for the negotiation of a post Brexit trade agreement between the UK and the EU. However, the duration of trade negotiations between the EU and other states has, in the past, taken between four and nine years.

08

Energy - The all-island electricity market is important for Northern Ireland as we rely on electricity imports from the Republic of Ireland to make up for insufficient local generation capacity although it has been suggested that an all-island set up would continue in the event of an exit.

Brexit - checklist

- Who are our customers, suppliers and outsourcing providers? What impact will a ‘leave’ vote have on them and our business interactions with them?

- What impact might future political or economic volatility have on our business? How would the uncertainty caused by protracted negotiations impact our business?

- What are the cross-border implications? To what extent are we exposed to additional time and compliance matters on a cross-border trade basis?

- What impact might Brexit have on our workforce? Especially if we also have non-UK operations in terms of immigration, cross-border working, workforce mobility and employee availability.

- How might Brexit impact on our current financing arrangements? What about other direct financial implications such as transfer pricing, tax jurisdictional matters and exchange rate issues?

- To what extent does our business depend on EU grants or trade agreements? Following a possible Brexit might we align voluntarily with EU requirements? What might this cost?

- What are the regulatory implications? What will the loss of EU law or directives mean for our organisation?

- How might energy supplies and the overall energy market be affect? There is an all-Ireland electricity market jointly regulated by both states. What risks may arise in the event of a change in regulation?

Post Brexit models

Should the UK decide to leave the EU there are a number of different scenarios that may, subject to negotiation, define the UK's relationship with the EU. Such scenarios include:

The Norwegian/European Economic Area (EAA) model

In effect this is the closest to full EU status but without actual membership. It offers access to the single European market with the exception of agriculture and fisheries. Under this type of agreement the UK would still have to accept free movement of labour and abide by single market rules without having any vote. Furthermore, it would require the UK to make significant payments to the EU budget.

The Bilateral/Free Trade Agreement (FTA) OR Swiss model

Sometimes known as the "Swiss Model" the UK could negotiate a bilateral agreement with the EU to cover issues such as reciprocal market access, travel and immigration. One variant of this option offers significant market access to the EU but does require contributions to the EU budget as is the case with Switzerland. It's important to note that the EU retains the right to negotiate FTA's on behalf of all of its members. In the event of Brexit, the UK and Ireland would not be in a position to agree a bilateral trade agreement with each other.

The World Trade Organisation (WTO) Model

This scenario applies in the context of the greatest break with the EU. It does not involve any UK obligations in terms of free movement of people, EU budget contributions or complying with EU rules. By way of background the WTO is a global framework for trade relations. All EU countries, including the UK and Ireland, are members of the WTO. Such an agreement implies tariffs on UK goods and services, non-tariff barriers and the possibility of reciprocal tariffs on EU trade into the UK.