Brexit in the boardroom

Some issues and implications

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Introduction

The people of the United Kingdom have voted to leave the European Union. This is an enormously significant decision for global business and for the island of Ireland and businesses based here - both North and South. Many of the implications of the result are very negative and others will evolve over time.

It is important to re-affirm the many positive fundamentals that already exist in the Irish - UK economic relationship. We are both significant markets for each other's goods and services and this will not change. Inevitably and depending on the outcome of the exit negotiations, there may be some notable alterations to the terms of this trade.

These negotiations may be protracted and the medium term economic impact of the referendum result remains highly uncertain. The short term impact is certainly very negative. It is in everyone's interests that the eventual trading relationship between the EU and the UK is as business friendly as possible.

The Irish government can and should play an important role in ensuring that Ireland's interests are strongly represented and we are very supportive of all efforts to ensure that outcome. We are also highly supportive of the efforts of state agencies to promote Ireland's continued appeal as an excellent location for business.

We hope this document is a useful aid in helping consider some of the issues in relation to Brexit.

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10 Brexit considerations for Ireland

01

Trade & People - Two way trade between the Republic of Ireland and the UK stands at over €1bn per week. Meanwhile, approximately 400,000 people born in the Republic of Ireland live in the UK and almost 230,000 people born in the UK are resident in the Republic of Ireland.

02

Exports - The UK is Ireland's largest export market. According to the Irish Exporters Association, goods and services exports to the UK totalled €30bn in 2014 - accounting for 17% of total Irish exports in value terms. The UK ranks as Ireland's No.1 market for services exports and No.2 for goods exports.

03

Domestic Business - Irish SMEs are more exposed to the risk of Brexit as they have a higher proportion of their trade with the UK. Conversely, larger companies tend to have a more diversified range of export markets.

04

FDI - It has been suggested that Brexit would make Ireland more attractive than the UK as a 'Gateway to the EU'. The UK has lowered Corporation Tax and in 2014 attracted record volumes of FDI. Whilst Ireland's FDI appeal is undeniable, competition from the UK for FDI could become more intense as a result of Brexit.

05

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

06

Agribusiness - Ireland and the UK are each other's single biggest export markets for food and drink. According to Bord Bia, the UK accounts for over 50% of Ireland's beef exports and almost one third of dairy exports. 70% of Irish ingredients and prepared food are sold to UK customers.

07

Exchange Rate Volatility - A further weakening of sterling could have a negative impact for sectors trading heavily with the UK. It has been suggested that the vote for Brexit could weaken sterling by a further 10 -15%.

08

Cross – Border Trade - Estimated by the ESRI at €3bn - €1.8bn from North to South and €1.2bn in the opposite direction. The possibility of the reintroduction of border controls and associated delays is a potential inhibitor and additional cost to business.

09

Northern Ireland - The Northern agribusiness sector is due to receive an estimated €3bn in EU aid between 2014 and 2020. There is no guarantee that following Brexit that this loss of funding from Brussels will be replaced by similar funding from the UK government.

10

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.

Brexit - the certainty of uncertainty

Membership of the EU guarantees 'Four Freedoms.'

1. The free movement of goods
2. The free movement of services, and freedom of establishment
3. The free movement of persons including the free movement of workers
4. The free movement of capital

Brexit will fundamentally alter the "Four Freedoms" of goods, services, people and capital guaranteed by EU membership.

The extent to which Irish business is affected will depend on how much it benefits from the Four Freedoms and how much the Four Freedoms are affected by Brexit. For example, a business operating on an all-Ireland basis would face significant uncertainty under all four of the freedoms.

It has also been suggested that something approaching 40,000 pieces of legislation will have to be considered by both the EU and the UK as a result of the UK vote to leave.

Perhaps the biggest area of uncertainty is how a separation from the EU would work. According to the rules of the Lisbon Treaty, a 'leave vote' would be followed by up to two years of negotiations.

The eventual outcome – the UK's future legal and trading relationships with the EU including Ireland – will hinge on these negotiations. There is no absolute guarantee that such negotiations will conclude within a two year time frame set out under Article 50 of The Lisbon Treaty – adding additional uncertainty for Irish business.

It is of course possible that the final outcome will leave very few changes. At the other extreme and however unlikely, a deeper separation could see the UK fail to reach any agreement with the EU. Thus, we could see a return to World Trade Organisation rules and trade tariffs on certain goods.

Other possible outcomes includes a new EU relationship for the UK based on those held by other non-EU states such as Norway or Switzerland.

It is of note (particularly for Irish companies with UK subsidiaries for example) that the EU has negotiated terms of trade with many other countries including the US, China and Japan. As the UK is leaving the EU it will no longer be party to these agreements and will have to renegotiate its own trade terms with each country and with the EU.

Post Brexit models for the UK

As the UK has decided to leave the EU there are a number of different scenarios that may, subject to negotiation, define the UK's relationship with the EU. By definition they would have each have a significant implication for Ireland and Irish business. 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. As a result of Brexit, Ireland and the UK will 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 Ireland and the UK, 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.

Brexit - checklist

01

Who are our UK customers, suppliers and outsourcing providers? What impact will the 'leave' vote have on them and our business interactions with them?

02

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

03

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

04

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

05

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

06

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

07

How might energy supplies and the overall energy market be affected? There is an All-Ireland electricity market jointly regulated by both states. As a result of Brexit, the UK may decide to alter its perspective on how this responsibility is shared. What are our energy dependencies and what risks may arise in the event of a change in regulation?

08

What are the regulatory implications? Ireland and the UK often adopt similar positions in terms of economic regulation. What might the regulatory impact be on our Irish based business when the UK is outside the EU and no longer an ally on these matters?

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