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Developing a Brexit Strategy

Considerations for Irish Firms



Introduction

Brexit is a significant event, generating uncertainty, complexity and ultimately disruption to businesses

- UK Vote has triggered uncertainty which will continue for an extended period.
 - Article 50 unlikely to be invoked until political consensus around UK strategic objectives is achieved.
 - Settlement negotiations will take 2 years, and can be extended. Ratification of the exit agreement and further negotiations on the EU / UK relationship will follow.
 - Current legal, regulatory, trade and mobility arrangements are in place until this is complete.
 - Depending on the “option” negotiated, there may also be an extended period during which complex legislative and regulatory issues must be unwound / resolved.



Key Impacts

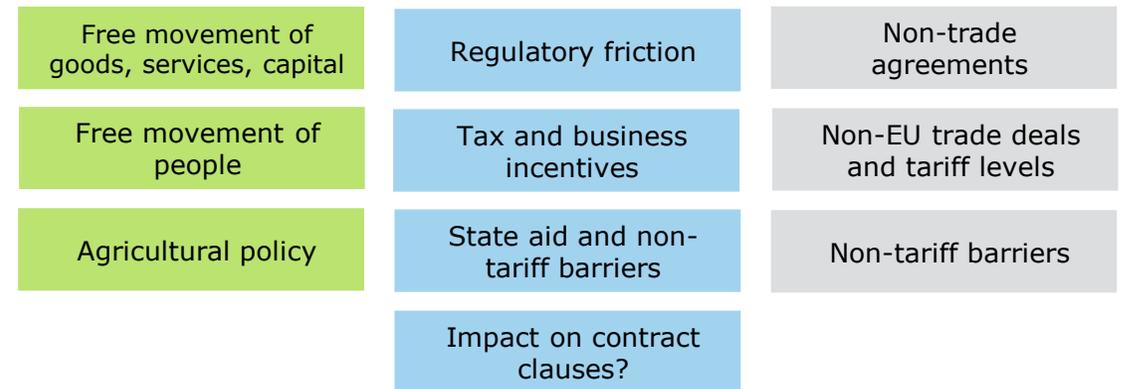
Direct and indirect

- Impacts vary depending on domicile, business model, trade flows and ultimate business strategy.
- The key direct impacts will be on the free movement of goods, services, capital and people, as well as potential changes to tax and business incentives in the UK.
- The extent of the impacts will ultimately be dictated by the type of exit option the UK chooses.
- In the short term, this creates uncertainty.
- The indirect impacts of this uncertainty include sterling weakness, loss of consumer confidence (demand), loss of business confidence (investment), BoE stimulus and reduced FDI flows to the UK.

Key UK Government Actions



Direct Impacts on Business



Indirect Impacts on Business



Growth Impact?

Brexit Scenarios

Regulatory impacts



4 main scenarios for the eventual UK / European relationship:

1. UK remains (Status Quo)
2. EEA Membership (Norway)
3. EU-UK Bilateral Agreement (Switzerland, Canada)
4. WTO

Each scenario has different implications for business depending on industry sector, business model and importance of UK market.

Brexit Scenario		EEA Member	Bilateral Agreement	WTO
		Norway, Lichtenstein, Iceland	Swiss, Canada	US
Regulatory Impacts				
Free movement of goods, services, and capital		Yes	Some	No
Free movement of people		Yes	Yes for Swiss-style	No
Full EU financial services passport		Yes	No	No
EU laws and regulation	Influence	Slight/indirect	No	No
	Compliance	Yes	Some	No
Fiscal contributions		Yes (83% of full rate)	Yes for Swiss-style (52% of full rate)	No
Common Agricultural Policy (CAP)		No	No	No

Impact of Brexit

Potential business disruptions

People



Immigration – restricted access of EU nationals to UK and vice versa.



Talent and reward – impact on mobile workers and attracting talent.

Regulatory & Legal



Financial passport – UK financial institutions lose ability to sell services within EU.



Data flows – restricted ability of UK to house or process EU citizens' data.



Regulatory friction – business compliance costs rise due to UK specific rules.

Finance



Availability and cost of capital – lending terms and limits to firms with high UK exposure.



M&A – UK acquisition risk. Value in targets with significant non-EU revenues?

Intellectual Property



R&D funding – costs of R&D in the UK increase as UK loses access to EU research funding.



IP rules – friction between EU and UK regimes (patents and trademarks).

Supply Chain & Tax



Tax/Incentives – new UK corporate tax and business incentives to attract/retain FDI.

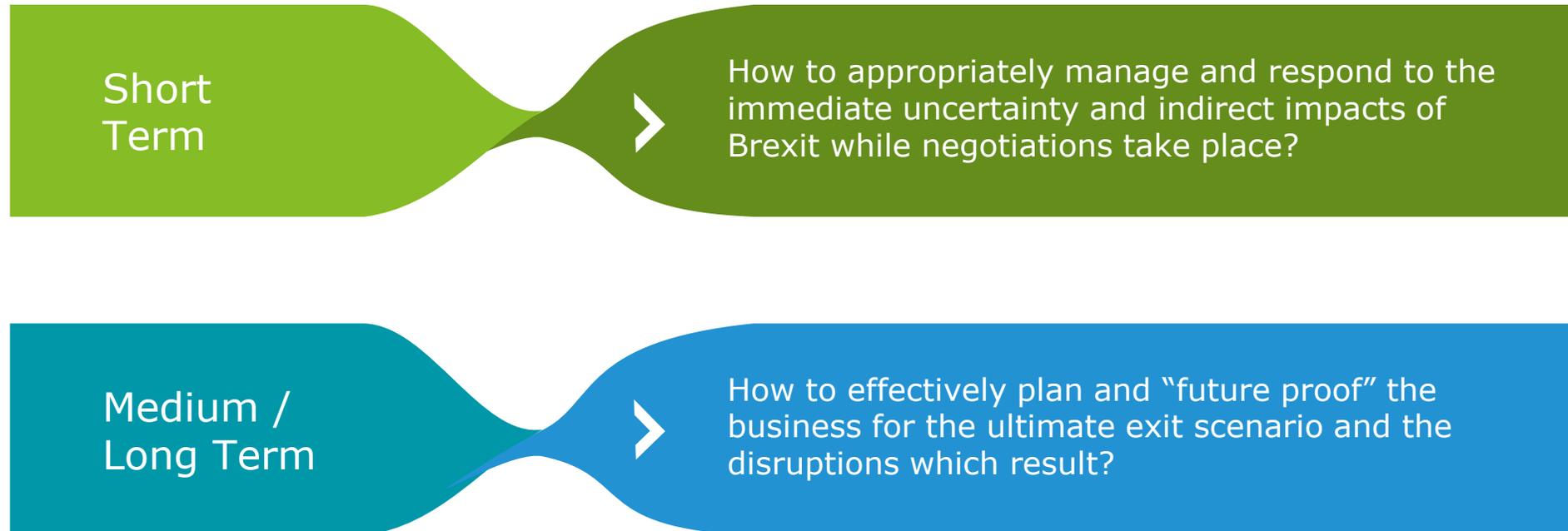


Supply chain – tariffs on UK imports/exports and VAT and customs implications.

Preparing for Brexit

Planning horizons

- Firms should plan their response to Brexit around two planning horizons:



Planning Horizons

Short term

- We recommend that firms assess potential issues and risk, beginning with the indirect and immediate impacts of Brexit.



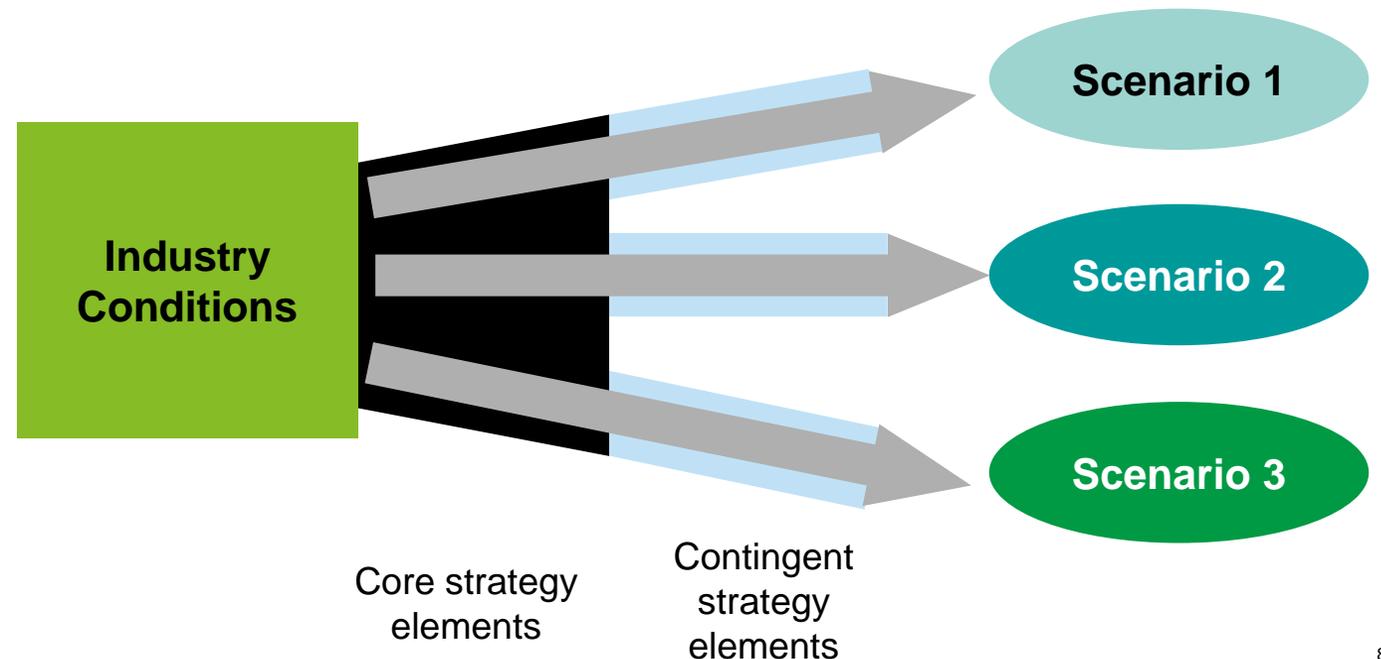
Planning Horizons

Medium / long term

- The direct impacts of Brexit will be felt over the medium / long term and are dependent on the exit option chosen.
- However, firms should begin assessing the potential impacts now given the scale of the potential changes.
- This process should identify the potential impacts of Brexit for your particular firm and industry under the various exit scenarios.
- Plans should then be drawn up outlining responses under the scenarios. Some responses will be identical regardless of the exit scenario – these are part of the 'core' strategy.
- Other responses will only be triggered under particular exit scenarios or as particular circumstances unfold. These are the 'contingent' strategies.

'Core' strategy – plans that remain the same regardless of the Brexit outcome.

'Contingent' strategy – responses that are triggered under a given Brexit scenario or as particular circumstances unfold.



Planning Horizons

Medium / long term

- The direct and medium / long term impacts have the potential to impact a range of areas across the business.



Industry Impacts

Key considerations by sector

Financial Services

- **Loss of passporting rights** – is there a need to relocate some UK-based operations to ensure continuity of service?
- **Restricted free movement** – how will restricted free movement of EU nationals in the UK and UK nationals in Ireland impact our workforce planning?
- **Regulatory friction** – what is the potential compliance burden for organisations operating within both the EU and UK?
- **Employee remuneration** – what is the impact if Britain no longer subject to remuneration caps (CRD IV)?

Technology

- **Data flows** – do we need to review where we house our customer data?
- **Regulatory friction** – what is the potential compliance burden for processing data within the UK and EU?
- **IP rules** – how should we manage our IP if the UK is not captured by EU IP regimes?

Life Sciences/ Healthcare

- **Supply chain** – how will our supply chains be affected by tariffs on UK inputs?
- **R&D funding** – do we need to extend our R&D collaboration network to non-UK EU partners/universities?
- **IP rules** – how should we manage our IP if the UK is not captured by EU IP regimes?
- **Location of European Medicines Agency** – what impact would relocation have on regulatory approval and lead times?

Industry Impacts

Key considerations by sector

Agriculture/ Food

- **Exports** – what is our dependency on the UK market as an export destination? Where can we diversify exports to mitigate risk of potential trade barriers with the UK?
- **Supply chain** – what is our exposure to UK-based suppliers? What alternatives exist?
- **Operations** – do we need to review the location of our existing operations for food processing? Would UK-based operations make more/less sense under different Brexit scenarios? What are the potential administrative costs of border checks and customs paperwork?

Energy

- **Infrastructure** – are there opportunities to respond to Ireland’s changing energy infrastructure and supply needs (diversification away from UK-reliance) in renewables, fossil fuels and electricity distribution?
- **Regulatory friction** – do we need to review commercial plans in the UK to prepare for a potential shift in UK energy/climate change policy?

Consumer Business

- **Internet sales** – in the short term, sterling weakness may generate more sales for UK based online retailers with almost 10% of online sales coming from outside the UK. In the longer term, how could tariffs impact these sales?
- **Supply chain** – many consumer goods firms use the UK as a distribution centre for Europe. How would tariffs and duties impact these companies?
- **Operations** – what are the potential administrative costs of border checks and customs paperwork?

Conclusions

Next steps for business

Brexit Taskforce

- PMO
- Function / line of business reps

Financial Planning

- Short-term impact and responses
- Balance sheet assessment

Impact Framework

- Brexit scenarios
- Points of disruption
- Accelerated approach (workshops, assessment exercises – e.g. Deloitte Brexit Labs)
- Identify + plan core and contingent business activities

Monitor and Act

- Review conditions and act according to the core and contingent plans



What is our **exposure to the UK market**, and how must our **market development strategy evolve** to balance the Brexit Scenarios (e.g. M&A, Diversification, Supplier Base)?



Which **elements of our business model** (suppliers, locations, manufacturing, market development, etc.) would require **30 months or greater to transform** or adjust to a post Brexit scenario?



How can we **“future proof” investment** decisions to maximise the return and effectiveness across the Brexit scenarios?



Where will opportunities be presented in this period of uncertainty, either through competitive action, value available (e.g. acquisition) or partnerships that might be formed?



How will the potential **disruptions impact our business strategy and operations?**