



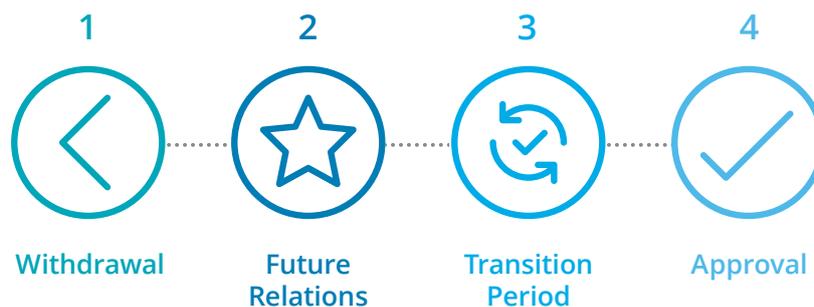
## Planning for Brexit A practical approach

Brexit commenced in earnest when the result of the UK referendum, which was held on 23 June 2016, was announced. Prior to the referendum, most Irish businesses hoped that the vote would be in favour of the UK remaining within the EU. The result of the referendum was a massive shock to the Irish business community.

The shock has evaporated only to be replaced by a high level of uncertainty. The reaction by the business community is reflected in the political arena as evidenced by the Irish Government's view that Brexit poses unprecedented political, economic and diplomatic challenges for Ireland.

This document will explain the status of Brexit, highlight some of the challenges that are being encountered from the perspective of indigenous Irish companies that have trading relationships with the UK and then will make a number of suggestions as to how companies can respond to the difficulties posed by Brexit.

### Four phases to Brexit



### There are essentially four phases to Brexit, namely

- 1) withdrawal
- 2) future relations
- 3) transition period
- 4) approval

We are currently in Phase 1, where the key issues are reciprocal rights for EU and UK citizens, Northern Ireland and the island of Ireland and the financial settlement arising from the UK's decision to leave the EU.

The financial settlement has proven to be very challenging in Phase 1. While

insufficient progress was deemed to have been made in advance of October's European Council Summit, it appears as if the parties are optimistic that sufficient progress will have been made by the time of the next Summit to be held in December. If this is the case, the talks will move to Phase 2.

This staged process is often lost in the Brexit debate, with some arguing that the consequences of Brexit have not been as dramatic as forecast. There is a simple explanation for this: Brexit has not happened yet.

At corporate level, the impact of Brexit varies depending on the sector in which it operates and by the level of trade with the UK. As an example, financial services, which is not covered by this article, may be impacted positively due to firms taken the decision to relocate some or all of their operations in Ireland.

On the other hand, the agrifood sector, with low margins and a heavy reliance on the UK market, could suffer a significant negative impact unless appropriate safeguards are put in place. Access to the UK market post Brexit will change from its current form.

### Trade deals and relationship with the UK

The UK wants trade with the EU post-Brexit to remain as frictionless as possible but, at the same time, wants to agree its own trade deals with third parties and decide the rules and regulations for doing business. Unfortunately, these wishes are unlikely to be fulfilled.

In the simplest analysis, Brexit will result in an increased cost of doing business and likely time delays entering and exiting the UK due to customs processing. Indigenous Irish business that has trading relationships with the UK will be most impacted by this changing business landscape.

The extent to which such additional costs will arise will depend on the nature of the UK exit and the type of trade agreement entered into between the UK and the EU. Sixteen months on from the referendum and uncertainty still prevails. We still don't have clarity on the future trading relationship between the EU and the UK. What we know is that Irish business will face some or all of the following challenges as a result of the UK's decision to leave the EU, leave the Customs Union and leave the Single Market:

- Imposition of tariffs;
- Increased transport costs;
- Time delays due to border controls and processing of customs documentation;
- Currency volatility;
- Potential for a divergence in standards on regulations, labelling of foodstuff and packaging; and

- The risk that the UK could use tax policies or state aid to increase the competitiveness of UK business post Brexit.

All of this leads to the biggest challenge facing Irish business, which is continued and prolonged uncertainty around the nature of future EU-UK trading relationship. This uncertainty, in turn, impacts negatively on business confidence and investment decisions.

The impact of Brexit should become clearer when the process moves into Phases 2 and 3 as the future relations between the EU and the UK will be decided and arrangements will be put in place for a transition period. The result will be a permanent realignment of the EU-UK trading relationship and the consequential impact on Irish business.

Irish business would prefer that the UK gets a good deal from the EU and that, while leaving the EU, the UK remains in the Customs Union, maintains tariff free trade and minimises non-tariff barriers. While this is ideal from an Irish business perspective, it does not seem realistic when considered in the context of the respective positions of the EU and the UK. In this regard, Ireland has a different perspective than most other EU countries due to the importance of the UK as an export market for many indigenous Irish companies and as a source of goods in the supply chain.

### Ireland's unique position with the UK

Notwithstanding these close economic ties to the UK, Ireland is a committed member of the EU. While the EU has recognised the unique situation on the island of Ireland, it is almost certain that the EU will not recognise commercial issues as unique. There will be one agreement binding on all EU members, irrespective of the importance or otherwise of each member's trading relationship with the UK. The resilience of the Irish character in the face of adversity is likely to be tested further as Brexit unfolds. Brexit represents a permanent realignment of trading relationships with the UK and it would be foolhardy of Irish business to believe that the status quo will prevail.

It is concerning that in a recent survey conducted by Enterprise Ireland, some 62% of the businesses surveyed did not have a plan in place to address Brexit.

Each company needs to carry out a robust assessment of the potential impact of Brexit, identify the specific risks it may face and develop an appropriate strategic response.

This can be analysed in different time horizons. In the short term, businesses need to appropriately manage and respond to the uncertainty and the indirect impacts of Brexit. In the medium-to-long term, businesses need to plan effectively and futureproof the business for the ultimate exit scenarios and the disruption that will be caused. In this context, our advice to owners and managers of businesses is to prepare for maximum change and to act now.

Scenario impact assessments should be conducted in order to better understand the potential impact of Brexit. Businesses that do not have sufficient resources should consider joining a sectoral group or representative body that will represent their views.

Brexit presents a challenge of a magnitude that requires a strategic response that should include consideration of the following:

- Increasing competitiveness, through cost reduction programmes;
- Being innovative, whether this is through the use of technology or indeed digital platforms or enhancing the product offering;
- Establishing or expanding existing operations in the UK;
- Reviewing supply chain arrangements;
- Driving forward with investment decisions; and
- Diversifying into new markets, including but not limited to other EU countries.

Brexit can be the catalyst to carrying out a strategic review of your business. Irish business has tended to look to the UK in the first instance and in many cases do not move beyond that. There have been valid reasons for this, including culture and language. However, Brexit has and will continue to challenge traditional thinking. Business owners would do well to remember that for every Irish company concerned about the impact of future trading with the UK, there must be a number of UK companies concerned with the impact on future trading with the EU. Irish companies can take advantage of this situation and can both lean on and learn from the major Irish corporates who have successfully penetrated global markets.

**The time to take decisive action is now.**

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