



Brexit: a guide for your business

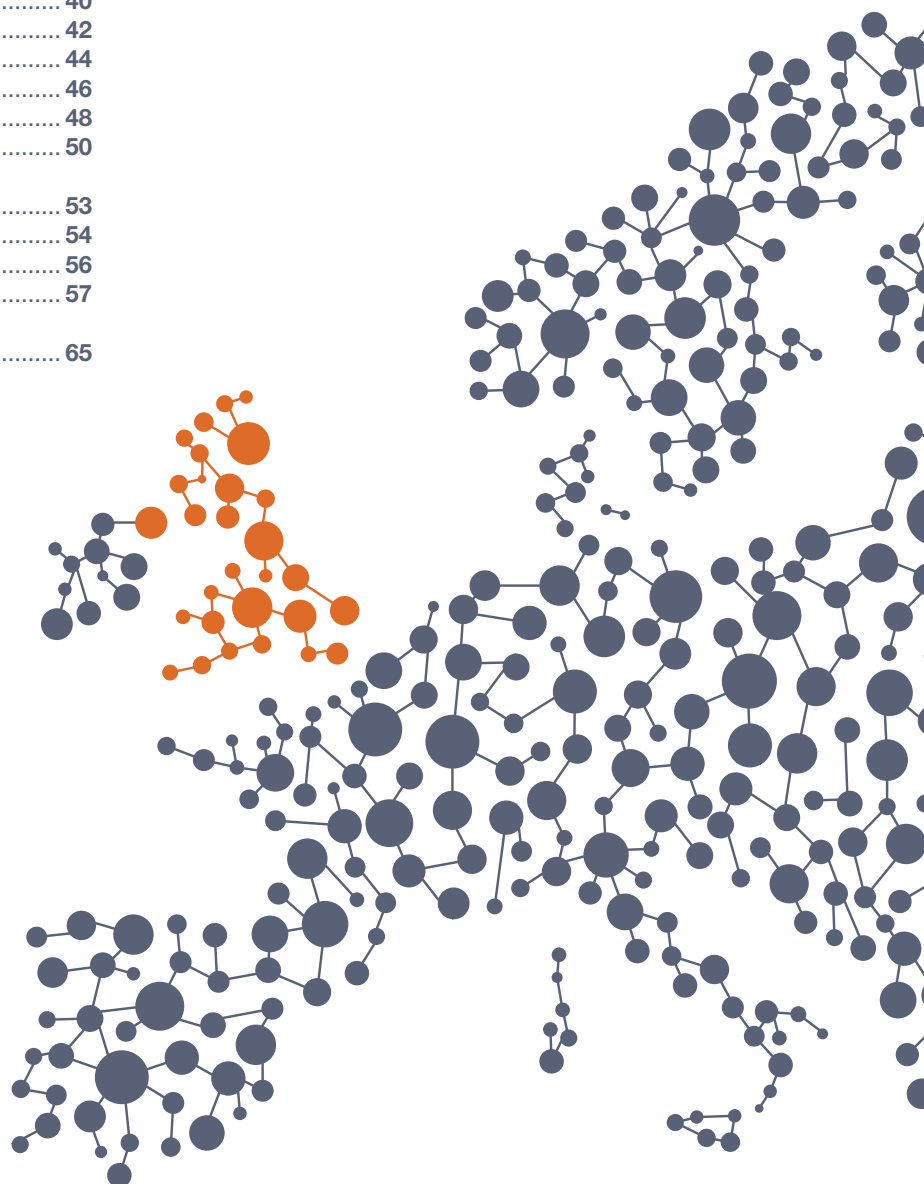
Understanding
and navigating
uncertainty



“ As the challenges and opportunities of Brexit crystallise, Ibec will be with you every step of the way; supporting you at a company, sector, national and international level.”

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About Ibec



Ibec is the national voice of business in Ireland. The organisation and its sector associations, work with government and policy makers nationally and internationally, to shape business conditions and drive economic growth. Ibec's strength lies in its diversity. We offer our members a range of professional services and training on human resource management, occupational health and safety, employee relations and employment law.

Introduction from Danny McCoy

Since the UK vote to leave, developments have been rapid and dramatic. The outcome has reshaped British politics, significantly increased economic uncertainty and will dominate much of the domestic and European agenda over the coming years.

For Ireland, the relationship with our closest neighbour, ally and of course competitor is set to change fundamentally. This presents challenges to the economy as a whole, but also to the many individual businesses that will be affected. Long before the vote, Ibec was working to ensure the concerns and interests of Irish businesses were forcefully communicated and advanced. This work has intensified since the referendum result.

The Ibec approach to Brexit is threefold.

Firstly, we are working at a domestic level to ensure the Government and relevant state agencies respond swiftly and decisively to support businesses during this period of uncertainty. We need to take immediate action in areas under our control.

Secondly, we are working at a national, UK and EU level to ensure Irish interests are protected in the complex exit negotiations and in the new trading relationship the UK will have to forge with Europe. Business comes with new ideas and a constructive approach.

And thirdly, we are working to support member companies as you navigate the challenges of Brexit. This Ibec report, with the support of Accenture, is central to this work. It sets out the potential implications of Brexit for companies, and proposes pragmatic steps that your business can take to assess the risks and prepare a response.

I hope you find it to be an invaluable resource in trying to understand how Brexit may impact your business, your market, your suppliers and your customers.

As the challenges and opportunities of Brexit crystallise, Ibec will be with you every step of the way; supporting you at a company, sector, national and international level.

Please get in touch if we can help in any way.

Danny McCoy
Ibec CEO



Executive summary

A UK exit from the EU will be particularly challenging for Irish business. As Ireland's largest EU trading partner, the UK accounts for 14% of our total exports and 26% of imports.¹ This headline exposure however doesn't reflect the importance of this trade to the wider economy. These exports are concentrated in key, jobs-intensive sectors that have footprints across all regions. The effect of any significant disruption could be severe.

Amongst other things, these implications may include a prolonged period of currency volatility, divergent regulatory frameworks, tariff and non-tariff trade barriers, restrictions on movement of people, new competition and market access constraints

There has been a lot of comment about Ireland's unique relationship with the UK, not least because of the land border with Northern Ireland. The issue featured prominently in Prime Minister Theresa May's '12 Point Plan' speech which set out UK Brexit negotiation objectives. However, there can be no guarantee of special treatment.² There is a lot to play for in negotiations.

The future model for the UK's relationship with the EU is unclear, and timelines for execution are not yet established, but Brexit's potential implications for Irish business are so profound that companies cannot afford to take a wait and see approach. Irish businesses not only have to deal with the impact of weak sterling on trade flows, but also the future complexity of operating under dual regulatory frameworks, new overheads associated with trading with a non-EU country; additional supply chain complexity; and new competitive and market access pressures.

It will affect different companies in very different ways, but businesses need to be proactive and prepare their responses by identifying where the key risks and opportunities lie, to ensure they are not left behind when the uncertainty clears.

Despite the significant risks to Irish trade, many businesses are not preparing for Brexit. A recent Ibec survey found that 54% of businesses have not taken any action to understand the implications for their business and how they might respond.³

This report identifies the potential implications of Brexit for Irish business, and proposes pragmatic steps that businesses can take to assess the risks and prepare their responses.

Acknowledgement

During the course of preparing this work, more than 50 interviews were carried out with CEOs, policy specialists and sector associations, covering the full spectrum of Irish business life. This comprehensive research and the subsequent feedback was invaluable in informing the approach, identifying the pertinent issues and determining how best companies can begin to address these challenges, notwithstanding the level of uncertainty that Brexit presents. We want to thank all those who gave their time and insights so generously, without whom this report would not have been possible.

1. <http://www.cso.ie/en/media/csoie/newsevents/documents/pressreleases/PRBrexit.pdf> as accessed on 11/01/2017
2. Prime Ministers Speech, https://www.washingtonpost.com/news/worldviews/wp/2017/01/17/full-transcript-theresa-mays-speech-on-brexit/?utm_term=.cfca62fa515d
3. https://www.ibec.ie/IBEC/DFB.nsf/vPages/Research_and_surveys-Business_environment-brexit-report-2016?OpenDocument#. WHYgTfmLTU as accessed on 11/01/2017



How to use this toolkit



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to Brexit

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“No regret” actions to manage Brexit in your business

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Assess impact and plan your response

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Actions that you can take to assess the impact and mitigate short-term risk

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Understanding the background to Brexit

With the UK government now publicly stating that it intends to leave the EU's Single Market and the EU's customs union as we now know it, and with disparate political agendas starting to shape negotiations, businesses cannot afford to just wait and see what happens.

On Thursday 23 June 2016, the UK voted to leave the EU, initiating a process that has become known as Brexit (British Exit). Article 50 of the Lisbon Treaty needs to be invoked before negotiations can officially begin between the UK and EU. The formal exit negotiating phase then begins.

Hard or soft option

The post-Brexit political and economic landscapes remains uncertain, as both sides grapple with the complexity of unwinding 43 years of treaties and agreements. While not strictly defined, the terms 'soft' or 'hard' Brexit have been used to describe the opposing ends of the exit spectrum. The table below shows the possible outcomes from either scenario.

In January 2017, the UK government published details of its desired future relationship with the EU, bringing additional clarity to its negotiating position. These details include: leaving the Single Market and the EU customs union as currently constituted; full control over immigration, and ending the jurisdiction of the European Court of Justice (ECJ) in the UK, while maintaining the Common Travel Area with Ireland amongst other things. One of the key objectives the UK Prime Minister outlined is to keep a distinct and preferred relationship with Ireland, but mechanisms of this agreement remain uncertain. Although the UK may seek such an agreement, it is not clear how Ireland would be allowed to do this because of its EU membership. While a hard Brexit is now increasingly likely, the final shape of our future relationship with the UK will depend upon negotiations, political will and palatability of trade-offs.

Soft Brexit

- Access to the Single Market
- 'Passporting access'
- Free movement of capital
- Free movement of labour with some 'soft' controls
- Contributions to EU budget
- Strict compliance to EU regulations with limited ability to influence their direction.

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Hard Brexit

- Have freedom to set policy/ legislation in areas such as tax, employment law, inward investment and ownership
- Lose access to the Single Market
- Need to negotiate preferential trade deals with EU for goods and services
- Need to re-apply to WTO as a full member
- Lose 'passporting' access
- Sever free movement of labour between UK and EU.

A slow divorce?

Once Article 50 has been invoked, both sides have two years to negotiate the terms of the split. The negotiation timelines may be extended but only if all countries agree. However, there are experienced senior EU and UK officials throwing doubt on the achievability of these timelines, particularly in the case of hard Brexit, with some estimating that a comprehensive deal could take seven to nine years to complete.⁴

While a transition deal may be agreed to cover the period while negotiations are finalised, this, like all things, cannot be guaranteed. There is a risk of the UK crashing out of the EU with no new or transitional deal being reached by the end of the negotiation period. They would then likely default to the existing WTO rules for trade. This would present additional challenges for UK trade.

Politics plays into negotiations

Negotiations will take place against a backdrop of growing political uncertainty and change that may have significant implications for the course and outcome of talks.

Across Europe there has been a growth in anti-establishment, nationalistic sentiment and a corresponding rise in populist anti-EU political parties. With a number of key national elections taking place in 2017, including German national elections and French presidential elections, there is the prospect of parties with anti-EU agendas gaining more influence, placing the stability of the EU project further at risk.

Different perspectives also inform the UK political debate. Within the UK, support for Brexit was split geographically as England and Wales voted to leave while the majority of voters in London, Scotland and Northern Ireland backed remaining, which raises the risk of internal fissures as negotiations progress. Young UK voters voted overwhelmingly to remain in the EU while older voters voted to leave. London also bucked the English trend and voted definitively to remain in the EU.

It is unclear what role non-EU countries will play in shaping negotiations. Both the US and New Zealand, for example, have expressed interest in a post-Brexit trade deal with the UK.^{5,6} The new US administration's trade and economic policies indicate a move to a more nationalist and protectionist stance which may also have significant implications for Ireland and the EU as a whole.

Proactive business response

With so much uncertainty, it might seem prudent to wait and see what happens and not expend valuable resources dealing in hypothetical scenarios. However, most businesses cannot afford to take this approach. The UK Government has stated that it will not look to remain within the Single Market or the EU's customs union as it is currently constituted. The UK's hard Brexit approach is potentially disruptive for Ireland, with significant implications for Irish business, and consequences that may need time and resources to prepare for.

4. "Britain warned it could take five years to agree trade pact with 'impossible' EU as Canada says the 'ball's in Europe's court' to rescue landmark deal". The Telegraph. <http://www.telegraph.co.uk/news/2016/10/21/eu-is-impossible-to-do-deals-with-canada-says-sparking-fears-abo/> as accessed on 11/01/2017
5. Trump, Donald. Interview with Michael Gove and Kai Diekmann. The Times, London. 16 January 2017
6. "UK and New Zealand plan free trade deal after Brexit". BBC. <http://www.bbc.com/news/uk-politics-38608716> as accessed on 16/01/2017

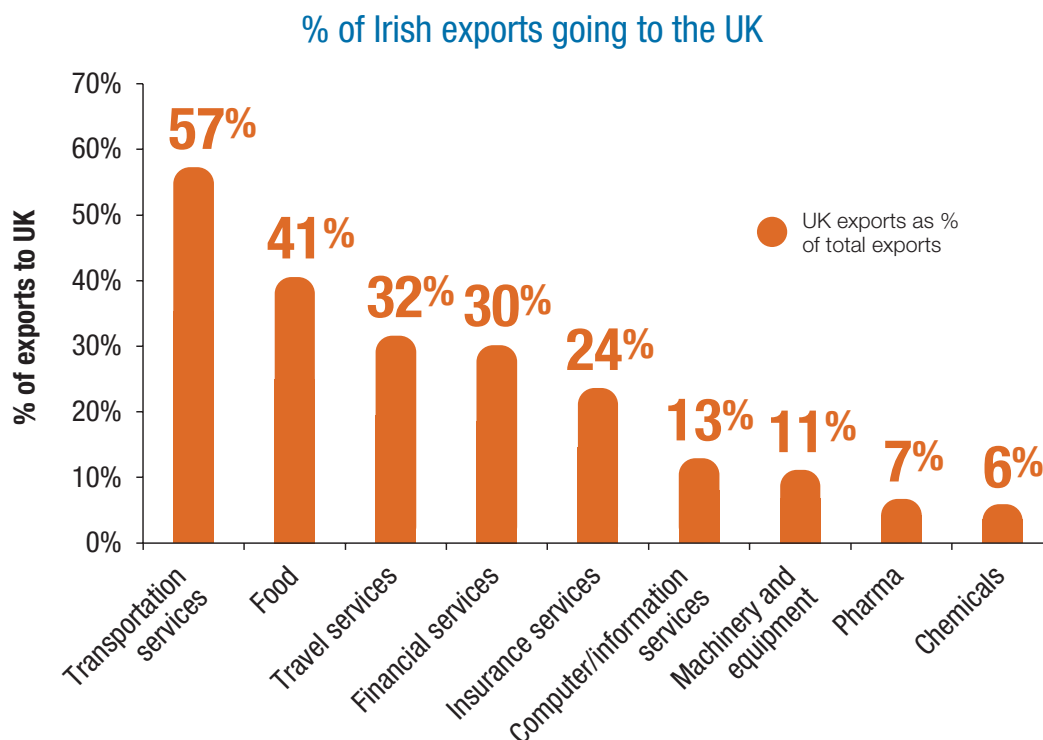
Brexit exposure: close ties leave Ireland vulnerable

The UK is one of our most important trading partners, and the primary market for many Irish businesses due to its size, ease of access, shared languages, similarities in culture and consumer tastes, and comparable legal framework.

Trade exposure

While Irish business has made progress diversifying in to other markets in recent years, the UK remains our second largest export market after the US. Two-way trade between the UK and Ireland is approximately €60bn per annum and is estimated to directly support 400,000 Irish jobs.

In 2015, €15.6 billion, or 14%, of exported goods, and €18bn, or 18%, of exported services went to the UK alone, with the top five Irish exports to the UK being computer services; food and live animals; chemicals; insurance/financial services; and transport equipment. In 2014, the turnover of Irish multinationals based in the UK was €37.6 billion.⁷



7. UK Department of Environment, Food and Rural Affairs. "British food and farming at a glance" London, March 2016

These figures in themselves do not paint the full picture with some job-intensive, geographically-spread sectors more heavily exposed to the UK market. For example, 41% of all food and drink exports and 70% of Irish timber exports go to the UK every year. These sectors support not only direct jobs, but provide very significant support to local suppliers and regional economies.

Ireland is also a significant market for UK goods and services; we are its fifth largest trading partner after the US, Germany, the Netherlands and France, receiving €11.4 billion of UK service exports and €18 billion in goods exported. Ireland is heavily exposed to the UK, but the UK is also dependent upon Irish imports. For example, the UK's total food and drink imports in 2014 were £38.5 billion against total food and drink exports of £18 billion.⁸

Shared labour market

Even before Ireland and the UK joined the then EEC, the common travel area allowed for the free movement of people and goods between the UK and Ireland, and enabled businesses to establish operations on an all-island basis. Northern Irish dairy farmers, for example, supplied to creameries north and south of the border.

The longstanding family, historic, language and cultural ties, combined with free movement, means that Ireland and the UK effectively share a labour market. This has provided a very important “safety valve” for the Irish economy at times when high unemployment has forced workers to look abroad to find work.

One in four UK citizens claim Irish ancestry, 395,000 Irish people are currently estimated to live in the UK and 112,000 people living in Ireland have UK passports.

It is estimated that there are up to 300 major and minor road crossings along the 500km border between the Republic of Ireland and Northern Ireland, and that 35,000 people cross the border each day.⁹

Tourists and business travellers from the UK accounted for 41% (3.5 million) of all journeys to the Republic in 2015 generating almost €1 billion in revenue 23% of total tourism revenues. And of the total number of business trips into Ireland in 2015, 600,000 (48%) were made by British residents.

Both Ireland and the UK have stated in advance of formal negotiations that they are determined to avoid a return to a hard land border. However, maintaining free movement of people without maintaining other EU freedoms could present significant challenges in itself.

Shared consumer market

Ireland's unique relationship with the UK goes beyond trade and a common border. Our intertwined histories, common language, proximity, flow of peoples and shared media, among other things, have facilitated a cross-pollination of ideas and similarities in culture, consumer taste and world view.

“Around 300 roads cross the 500km border between the Republic of Ireland and Northern Ireland, with 35,000 people crossing each day.”

8. UK Department of Environment, Food and Rural Affairs. “British food and farming at a glance” London, March 2016”

9. European Union Committee. “HL Paper 76. Brexit: UK-Irish relations” London, December 2016”

Our similarity, and familiarity, with the UK has meant it is often the first country Irish businesses look to when looking to grow outside of Ireland. And vice versa, many of the UK's most recognisable brands have operations in Ireland and are visible in towns and cities across the country.

Connectivity

The Irish and UK energy markets are also tightly integrated, with Ireland importing a significant portion of its energy needs from the UK through gas and electricity connectors. On the other hand, Northern Ireland will increasingly depend on Ireland for electricity imports to make up for insufficient local production capacity.

More generally, the UK plays a crucial role in connecting Ireland to the rest of the world. Key transport, energy and digital infrastructure routes connect Ireland to the UK, but also provide vital links to EU markets and beyond.

Legal and policy

Ireland and the UK are common law jurisdictions, unlike most other European countries, and, as a result, Irish law closely mirrors UK law in many areas. This makes it easier for Irish businesses operating in the UK, particularly when looking for a second market outside of Ireland, and vice versa.

The UK and Ireland have historically been closely aligned within the EU. The UK has been a particularly strong ally when it came to negotiations and policy creation across a range of areas, while Ireland has also benefited from access to UK policy research, and its administrative scale and experience.

Peace and prosperity

The Good Friday Agreement has delivered peace and stability for business across the island. The Irish Government is prioritising the need for any new EU-UK settlement to not undermine what has been achieved. The EU and UK sides have expressed a similar desire. How achievable that is remains to be seen. Heightened political instability is certainly a risk as a result of Brexit.

“We have an 85% dependency on the UK for our energy needs”













“ Even before joining the then EEC, the common travel area allowed for the free movement of people and goods between the UK and Ireland.”





Brexit and your business: potential impacts

With a hard Brexit looking increasingly likely, Irish business needs to reassess its tightly intertwined UK relationships and look beyond that market for growth. We have identified ten broad areas where Brexit may have implications for Irish business.

Theme	Description	Timeframe	Potential impact	Likelihood
 Currency	Weak sterling has been an immediate impact of Brexit, putting pressure on exporters to the UK and increasing cross-border competition. Only 27% of Irish businesses exposed to sterling have a currency hedging strategy in place. A prolonged period of currency volatility may have implications for the viability of some businesses and markets.	Short term	H	H
 Supply chain	The UK and Ireland are both members of the Single Market and EU customs union allowing free movement of goods between both our countries. The introduction of tariff barriers and border controls is looking more likely. If implemented, they will disproportionately impact Irish businesses due to the reliance on the UK market for raw materials; high trade volume, low-margin goods; and tightly intertwined cross-border supply chains.	Long term	H	M
 Contracts	Subject to the UK's future relationship with the EU, there are potential implications for rights and obligations, particularly with regard to contracts that run beyond the exit date.	Short and long term	M	M
 Finance and funding	In the short term, there may be a slowdown and delays in investment decisions as the details of the UK's relationship with the EU are determined, while increased volatility in capital markets may make access to funding more difficult. In the long term, loss of Single Market access presents opportunities for Ireland to attract additional foreign direct investment (FDI) from the UK, while new partnerships may be needed to access EU research funding.	Short and long term	M	M

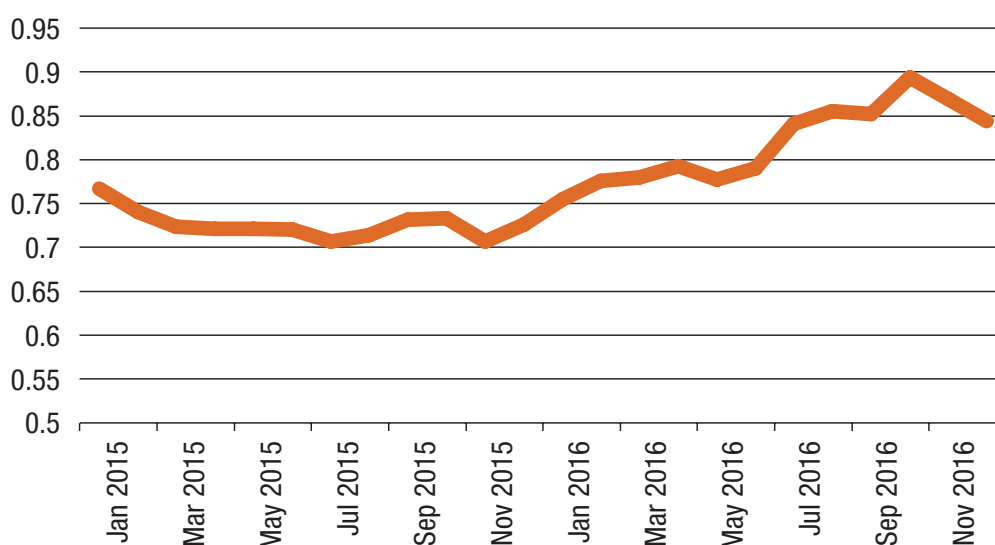
Theme	Description	Timeframe	Potential impact	Likelihood
 Workforce	Post-Brexit labour market restrictions may impact Irish businesses dependent upon the flexibility to allocate resources and place an additional administrative burden on businesses. Increasing demand for key skills, e.g. customs expertise, as a result of Brexit may put increased demand on scarce talent pools. Uncertainty for foreign nationals working in the UK may also present opportunities for Irish firms looking to attract global talent to Ireland.	Long term	M	M
 Technology	Business technology systems may require significant updates to meet changes in operating environments and additional administrative overheads. EU data protection laws put restrictions on movement of data outside of the EEA with potential implications for businesses with operations reliant on the free flow of data between Ireland and the UK.	Long term	H	H
 Regulation	UK regulation derived from EU legislation will remain the same post-exit unless the UK Government makes changes. Long-term implications will depend upon the UK's relationship with the EU after exit and on the freedom this allows the UK to set its own regulatory policy. For example, notified bodies in the UK may no longer be authorised in the EU. Divergent standards would add additional complexity for exporters, as would monitoring adherence to standards on imports. Ireland will also be losing an ally in policy negotiations within the EU. For example, the liberalisation of financial markets has been a consistent policy position for the UK and Ireland in Europe.	Long term	H	M
 Tax	The Irish Tax Institute has identified a number of areas of taxation that may be impacted by Brexit, including Import VAT, Withholding Tax and application of EU tax reliefs. Depending upon the future tax regime, this may have implications for how companies operating in, or trading with, the UK, structure and locate operations in order to drive tax efficiency.	Long term	H	M
 Market	In the long term, Brexit may have implications for customer buying behaviour and market demand. The introduction of trade barriers, threat of non-EU competition, or slowdown in UK economic growth, for example, may put the viability of Irish business in some UK markets into question. Small and medium Irish businesses have a higher degree of UK market exposure. They will need to place particular attention on how they remain competitive in the UK following Brexit, but also look for ways to develop new markets.	Long term	H	M
 Operating structures	Businesses with an operations footprint in the UK or with a high-proportion of trade between the UK and EU may also need to re-align operating structures (i.e. legal entity, trade entity) and geographic locations in light of changes to regulatory, taxation and governance rules.	Long term	M	M

 High potential impact
 Medium potential impact

01 Currency

The UK is one of our most important trading partners, and the primary market for many Irish businesses due to its size, ease of access, shared languages, similarities in culture and consumer tastes, and comparable legal framework.

Monthly average €/£ exchange rate



Trade exposure

The fall in sterling's value has been one of the immediate impacts of Brexit for Irish business. In the months following the vote, the sterling/euro exchange rate moved from an average of 0.73p in 2015 to 0.86p.¹⁰

■ Impact on exporters

A weak sterling is a particular challenge for sectors with significant exposure to the UK, for example 41% (€4.4 billion) of Irish food and drink exports go to the UK annually. While exporters with euro price agreements may expect some protection, businesses are already seeing UK buyers pushing back on currency-related price increases.

■ Impact on importers

While importers from the UK with sterling price agreements may expect to benefit from weaker sterling, global supply chains mean that UK manufacturers are also coming under cost pressure as non-UK input costs rise, so any benefits may be short-lived.

■ Impact on retailers

Currency volatility is also impacting Irish retailers with an increase in cross-border and online trade, as consumers shop around to benefit from a weak sterling.

A recent Ibec survey shows that only 27% of Irish business with exposure to UK currency have a currency hedging strategy in place.¹¹ It is less than 15% when it comes to small firms. Uncertainty caused by Brexit means that Irish business should prepare for a potentially extended period of currency volatility.

10. UK Department of Environment, Food and Rural Affairs

11. EU Select Committee Report accessed on 11/01/2017

02 Supply chain

Supply chains between the UK and Ireland currently function on the principles of the Single Market. This allows for the unobstructed circulation of goods, services, people and capital between members with no internal tariffs or quotas.

This free circulation is protected by a customs union, involving a common external tariff with checks at the external borders. The UK and Ireland are currently both members of the Single Market and the customs union, allowing for the smooth operation of supply chains between both countries.

■ Tariffs on trade

The UK has indicated it will seek to leave the Single Market and the customs union as currently constituted, and that it will negotiate a new trade agreement with the EU and a bespoke customs arrangement that will enable continued “friction-free” movement of goods. The worst-case scenario would see the introduction of VAT and duties on trade between UK and Ireland with no free trade agreement i.e. trading under WTO rules. EU common external tariffs, which the EU currently applies to all 3rd countries, vary from 0% on cotton, 11.5% on clothing, 25.6% on sugar and confectionery, to 45% on certain dairy products. The final tariff will depend upon the product and the outcome of negotiations, however sectors with tight margins and high-volume trade with the UK, such as the agri-food sector, are particularly exposed to new trade barriers.

■ Non-tariff barriers

Even if a free trade agreement were to be negotiated between the UK and EU, some form of customs border will be required to ensure the integrity of the

Single Market and adherence to the agreement rules, such as compliance to technical standards, labelling rules, and rules of origin. This could present significant logistical barriers, delay trade and add to business costs.

Many of the border and customs delays seen at EU's external borders are not due to a lack of infrastructure. For example, the Turkish-Bulgarian border is one of the busiest land crossings in the EU. Turkey has invested hundreds of millions of dollars in making the process on their side more efficient and the same is true of Bulgaria with modernised border gates and more lanes for trucks. Despite this, Turkish trucks approaching the Bulgarian border crossing face lines up to 17km and truck drivers face reported delays of up to 30 hours per vehicle passing through border and customs controls.¹²

■ Demand for new capabilities

Businesses that don't already have customs and trade expertise in-house will need to consider how to develop this capability along with any system, process and control changes that may be needed. Restrictions on the movement of goods and services may also have implications for after-care support and reverse logistics costs, delivery lead times – especially for time-sensitive deliveries – and treatment of goods transiting through the UK.

“EU common external tariffs vary from 0% on cotton, 11.5% on clothing, 25.6% on sugar and confectionery, to 45% on certain dairy products and 60% on some beef cuts.”

12. Mehul Srivastava and Alex Barker, “Turkey border gridlock hints at pain to come for Brexit Britain” The Financial Times, London. 17 February

03 Contracts

While there should not be any immediate impacts on commercial contracts, there are likely to be a number of longer-term contract risks for Irish businesses.

■ Changing rights and obligations

The implications for commercial contracts that run beyond 2019 are unclear, particularly those with UK counter-parties. Businesses should consider the effect that Brexit might have on their contractual rights and obligations. For example, is there an assumption on free movement of goods or people, or that the UK is in the EEA? Is there a dependency on EU or state aid? Is it clear how disputes will be resolved? How will intellectual property rights be protected? Business may have to move contracts to new jurisdictions within the EU to ensure the same rights and entitlements are maintained under EU law.

■ Intellectual property

The EU has created a Unitary Patent designed to recognise an applicant's intellectual property in 25 EU member states. It will this through a yet-to-be-established Unified Patent Court (UPC).

Following Brexit, the UK may no longer participate in this pan-EU initiative and as a result the implementation of the Unitary Patent will be delayed. It is likely that claimants to the UPC will also have to start separate parallel proceedings in the UK to defend patents.

■ Alternatives to UK law

UK law is a preferred jurisdiction when contracting with non-EU parties due to its mutual familiarity. Businesses may need to consider alternative jurisdictions agreeable to both parties where such relationships exist.

■ Shorter contract durations

While uncertainty prevails, businesses are contracting for shorter durations in order to mitigate potential commercial risks. This in itself causes challenges for long-term business planning, as well as creating the additional administrative cost of more frequent contract renewals.

■ Dispute resolution

Where trade disputes arise in EU member states, the ECJ has primacy, especially in instances of cross-border trade issues. Brexit could see the UK leave the ECJ regime and the UK courts would hold primacy over that jurisdiction. Hence, if there is a cross-border supply chain dispute, particularly if it involved Ireland, the UK and another EU country, the jurisdictional element of the dispute resolution would be very unclear.

04 Finance and funding

Post-Brexit uncertainty, along with global volatility, may have implications for FDI decisions, access to capital markets and access to EU funding programmes.

■ Access to capital

Brexit may have implications for mergers and acquisitions and investment, as businesses delay decisions while uncertainty prevails or find it more difficult to access money due to volatility in capital markets. For example, the value of private equity deals in Europe decreased by nearly a quarter during the first nine months of 2016 compared with 2015, and the pace of deals in the UK and Ireland showed a marked decline following the EU referendum.

In the long term, Brexit may provide the opportunity for Ireland to attract FDI from the UK. The UK is currently the leading recipient of FDI within the EU. Its membership and access to EU markets has played a role in securing this investment. The loss of Single Market access, passporting rights for financial services, and free movement of people, would likely make the UK less attractive.

However, if the UK lowered corporation tax, increased incentives and reduced regulation to attract business investment, Ireland could be under intense competitive pressure for foreign investment in the future.

■ Access to EU funding

Brexit may have implications for businesses reliant on EU funding. The UK was the top recipient of EU research funding in 2016. For example, the UK was the top recipient of EU research funding in 2016. The UK is Ireland's largest research partner under the current EU funding framework, Horizon 2020. Under the previous framework (EU Research Framework Programme 7), 72% of all Irish drawdowns involved a UK partner.

■ Working capital

The introduction of duties, import VAT and additional administrative burdens, along with currency volatility, could drive up the cost of doing business and impact cash flow and working capital needs.

“72% of all Irish funding under EU Research Framework Programme involved a UK partner.”

05 Workforce

Movement of people is one of the EU's four core freedoms. New limits and controls on immigration is one of the “red line” issues for the UK as it enters Article 50 negotiations.

■ Restrictions on free movement

In existence for almost a century, the Common Travel Area is an open borders area with minimal and at times no internal border controls between the UK and the Republic of Ireland. It is an essential element of the strong trading links between the two countries, and its maintenance is a key priority for Irish and UK negotiators.

The introduction of border controls and travel restrictions could have significant impact on Irish business with cross-border or British operations, restricting the flexibility to allocate resources, and resulting in additional administrative burdens.

And many believe Brexit will have indirect impact on both contingent workers and companies with dependencies upon them in the UK.

■ Access to talent

The UK has pledged to guarantee the rights of EU citizens currently living in the UK if they receive a reciprocal deal with the EU as part of the Article 50 negotiations. However, Brexit has created uncertainty for many skilled non-UK nationals working in the UK, which may present opportunities for Irish firms looking to attract global talent to Ireland.

An indirect, and less obvious, implication may be increasing demand for in-demand skills locally

as international firms look to relocate operations to Ireland to maintain Single Market access (for example employees with central bank certifications), or demand for new skills to support the post-exit operating environment (for example trade and customs expertise), putting a strain on the local talent market.

- **Divergent employment law:** While a major divergence from EU employment law is unlikely in the short term, the UK could have additional flexibility to set its own laws. Irish businesses with operations in the UK should monitor any changes in UK employment law to ensure they understand their obligations and implications for their business. Any watering down of UK employment rights may have implications for Irish firms' competitiveness against UK competitors.

- **Defined benefit pension deficits increase:** Irish employers with operations in the UK should also be aware of the impact the vote to leave may have had on their UK pension liabilities. Businesses have acknowledged that their pension deficits have increased in the UK following the vote due in part to foreign exchange rate and interest rate changes.

“57% of UK start-ups stated that access to talent and ability to bring people into UK are key issues for their businesses”

06 Technology

Brexit may introduce additional complexity to the way that Irish businesses dealing with the UK market operate, and it may have knock-on implications for business technology systems.

■ Systems enablement

Enterprise resource planning (ERP) and finance systems, for example, may require reconfiguration or even upgrades to enable operations in relations to changes in regulation, employment law, custom controls and tax.

■ Restrictions on data movement

Another potentially thorny issue is data protection and privacy. The UK currently complies with the EU Data Protection Act, but if it leaves the EEA, EU data protection laws will no longer directly apply to the UK. EU data protection laws put restrictions on movement of data outside of the EEA. While the UK may seek a European Commission adequacy decision to get over the data transfer issues, there may be restrictions on the transfer of data between Ireland and the UK. This may have implications for Irish businesses with operations reliant on the free flow of customer or personnel data across borders.

07 Regulation

Existing UK regulation derived from EU legislation will remain applicable post-Brexit unless the UK Government makes changes. The long-term implications on the UK regulatory framework will depend upon the future relationship that the UK has with the EU and the freedom this allows the UK to set its own regulatory policy.

■ Divergent regulation

There are a number of potential short- and long-term regulatory challenges for Irish business. In the short term, following the conclusion of the Article 50 negotiations, businesses may no longer be covered by existing EU regulations. For example, airlines require majority EU control and ownership by EU nationals to maintain their European aviation licence. Businesses with large UK ownership stakes may no longer fit this requirement.

In the long term, standards may diverge from EU norms over time, such as in food labelling regulations. Exporters would need to deal with the added complexity of maintaining compliance across multiple regimes.

Any new settlement may provide the UK with additional flexibility to amend regulations and policies in order to make it easier to do business.

For Irish businesses, the UK's regulatory flexibility may put them at a competitive disadvantage if they will need to comply with more onerous regulation and targets. These changes could also prevent the UK from achieving regulatory equivalency or passporting within the EU. They may hinder the ability of UK businesses to compete effectively within the EU.

■ Regulator location

Highly regulated industries such as medical technology which use notified bodies currently based in the UK, designated to assess the conformity of certain products to EU standards before being placed on the market, may also be impacted.

■ Access to UK contracts

Irish business with significant dependence upon UK public sector contracts could find themselves at a competitive disadvantage if the UK were to pursue more protectionist "Buy British" procurement policies. Once outside the EU's state aid rules, the UK could potentially increase the aid available to domestic and UK-based businesses beyond what the EU would allow within remaining member states.

08 Tax

Brexit may have significant tax implications for business operating within, or dealing with, the UK.

The Irish Tax Institute, for example, has highlighted the following areas of taxation that may be impacted depending upon the outcome of negotiations:

- Import VAT on imports from the UK
- Withholding tax on certain payments between Irish and UK companies
- Applications of tax reliefs which only apply within the EU.

The UK has also signalled that it may use tax (corporation, VAT, etc.) and other policies to seek to protect its competitive position post-exit. This is a strategy first highlighted by former UK chancellor George Osborne following the vote to leave in June 2016.¹³

Depending on the future tax regime both in the UK and EU, companies may need to reorganise operating structures, supply chains and geographic footprints to mitigate the tax impact and minimise cost to serve, which will affect underlying processes, roles and systems.

13. <https://www.ft.com/content/d5aedd0-412e-11e6-9b66-0712b3873ae1> access on 13th February 2017

09 Market

Any potential increase in the cost or complexity of Irish trade with the UK, in conjunction with an increase in non-EU competition or slowdown in UK economic growth, as examples, may place the viability of Irish business in some UK markets in to question.

Small and medium Irish businesses, in particular, have a higher degree of UK market exposure and will need to place particular attention on how they remain competitive in the UK following Brexit, while also looking for ways to develop new markets.

■ Increase in international competition

Irish retail businesses are already experiencing an increase in competition from cross-border and online UK trade in their local market, along with pricing pressure from UK customers driven by currency and demand volatility.

In the long term, Brexit may have more fundamental implications for business models, particularly where there is significant exposure to the UK market. For some sectors, the cost of trade barriers, favourable trade agreements resulting in new competition for the UK market from non-EU countries, or a slowdown in UK economic growth, may put the viability of trading with the UK into question.

■ Change in consumer buying behaviour

The impacts of a UK exit could ultimately accelerate ongoing changes in consumer trends, including the growth in campaigns to “buy British goods” and the rise in online retail.

UK businesses are reassessing supply policies which may make it difficult for Irish businesses selling into the UK.

■ Risk of economic slowdown

The UK economy is expected to see consumer spending come under pressure from rising inflation and slower growth. If demand outside the UK also dampens, this could further reduce consumer company growth prospects as consumer confidence sees declines caused by the potential contagion. There is also a risk that major trading partners could face declining confidence due to contagion, impacting the demand and growth in other markets that consumer companies operate within.

■ Barriers to new market entry

Businesses will need to be ready to adapt their business model in response to changes in their markets, whether through diversification in to new markets, changes to products or routes to markets.

The close historical links between our two countries may make it difficult for some sectors to adapt quickly. Many packaged consumer foods, for example, have been produced for the tastes of the UK and Irish consumer, and don't always have a ready-made alternative market. Many Irish businesses are not familiar with markets outside of the UK and Ireland, and don't have the business relationships or channels to market already in place.

“Ireland produces many products that particularly cater to the preferences of the UK market. The UK is currently the largest buyer of Irish cheddar cheese, importing 60% of production each year and Irish beef, accounting for 52% of total beef exports.”

10 Operating structure



EU membership provides businesses licence to operate across borders. Businesses operating as a single trading entity across the UK and EU, and/or with a high-proportion of trade between the UK and EU, may need to change how they structure themselves in light of changes to regulatory, taxation and governance rules.

■ Market access

Companies with a high proportion of UK-to-EU, or EU-to-UK trade may want to review their operating structure options and geographic footprint to minimise cost to serve, tax and risk.

Assuming that passporting (i.e. when a company is authorised to provide cross-border services in other EEA states by establishing a branch or agent) in its current form is removed, or radically reduced, some businesses will need to assess their business models and make participation choices around EU business. Rebalancing their business (i.e. moving some UK business to EU subsidiaries and vice-versa) may have significant impact on both business and operating models. In extreme cases, this rebalancing may require new entities to be incorporated and authorised, product holdings to be transferred between entities, customers to be migrated and support functions to be scaled up (and/or down) to support new geographic centres.

This may also prompt businesses to reshape their balance sheets and capital structures to ensure viability and regulatory compliance against a new target model, and impact how profits or losses are repatriated/consolidated.

■ Cross-border shared services

The UK is currently one of the more popular locations for shared services operations in Europe. However, the challenges of servicing the Single Market while no longer a member, including restrictions on the movement of data and people, may make the UK a less attractive location for these services and prompt the relocation of some services. This may also present opportunities for Ireland as an alternative EU location.

■ Increased demand for real estate

While there are opportunities for Ireland, along with other European locations, to attract investment away from the UK, an indirect implication may be upward pressure on scarce infrastructure such as commercial property – driving up costs in local markets.

“Major UK-based banks have indicated that up to 20% of their banking operations may have to move to other EU cities.”¹⁴



14. Stephen Morris & Richard Partington. “Brexit: HSBC may move 20% of its London banking operations to Paris, chief executive Stuart Gulliver says”. <http://www.independent.co.uk/news/business/news/brexit-latest-news-hsbc-bank-move-20-per-cent-fifth-london-banking-operations-paris-chief-executive-a7532711.html> accessed on 8 February 2017



Sectoral perspectives on Brexit

Brexit and your business: potential impacts

Brexit is having, and
will have, very different
impacts on businesses
in different sectors.

Biopharma

The hard cell: Ireland's
post-Brexit chance for
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Stop the bus: transport
and tourism impacted
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What's ahead in Retail?

Storing up trouble: short-term challenges and longer-term pressures for retailers

The Irish retail market is one of the country's largest employers, with 275,000 people working in the sector. Most retail businesses (90%) are small Irish-owned operations, of which 77% are family owned. 73% of Irish-owned retail businesses employ fewer than 10 staff and 75% of retail jobs are located outside Dublin.¹⁵

UK links

A significant number of high street brands operate across both the UK and Ireland. Most are UK-headquartered, but a small number of prominent Irish brands operate store networks in the UK. Many other Irish retailers sell into the UK through online channels. Several larger retailers also operate all-island businesses and use all-island supply chains that are tightly integrated with the UK.

Key trends

While sales volumes have returned to pre-financial crisis levels, sales values have not recovered to the same degree. The retail sector operates on very tight margins and is still recovering from the impact of the financial crisis. Turnover levels in December 2016 were 13% lower than the same month in 2007.¹⁶

Discounting and heavy promotional activity has been required to drive footfall and secure sales. This has resulted in sales volumes growing at 2.3 times that of the value rate.

Irish consumer confidence softened in the second half of 2016. This was reflected in softening retail sales as growth in sales values slowed from 3% in the first half of 2016 to 1% in the latter half. Increasing numbers of Irish consumers are looking to Northern Irish retailers to benefit from weaker sterling and competitive pricing. At its peak, the euro increased in value against sterling by close to 23%. In the months after the Brexit vote, the volume of southern consumers shopping in the North began to approach 2008 levels, the highest of the past 10 years.¹⁷

Irish consumers are also using online shopping more. 50% of Irish consumers made an online purchase in 2016 and the total value of online purchases by Irish consumers in 2015 was €9.1 billion.¹⁸

15. Retail Ireland, "Strategy for Retail 2014-2016". Dublin, 2014

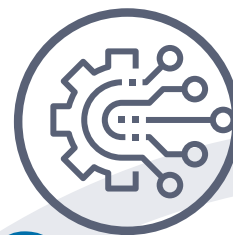
16. Retail Ireland, "Q2 Retail Ireland Monitor". Dublin, 2016

17. Intertrade Ireland, "Cross Border Shopping" as accessed at <http://www.intertradeireland.com/researchandpublications/trade-statistics/cross-border-shopping/> on 20th January 2017

18. "Sterling collapse to put pressure on "fragile" retail sector, warns IBEC" as accessed at <http://www.industryandbusiness.ie/tag/currency/> on 20th January 2017

Key Brexit impacts for the Retail sector

Impact	Key issues
Currency	1. Hedging: Due to currency volatility, existing hedging rhythms are no longer appropriate. Many retailers who source products in the UK have moved from three-month currency hedging windows to a month-to-month hedging position. This adds practical costs to the system and makes business planning more difficult.
Supply chain	2. Interlinked supply chains: If introduced, tariff and non-tariff barriers will introduce new costs and time delays for retailers with interlinked supply chains across the UK and Republic. They could also disrupt Irish imports from the UK and products in transit to Ireland through the UK from mainland Europe.
Finance and funding	3. Investment delays: Investment decisions to modernise supply chains may be deferred due to the ongoing Brexit-related uncertainty.
Regulation	4. Regulatory divergence: The UK may diverge from EU norms on packaging requirements, safety standards, and inspections compliance. Irish retailers may incur increased costs associated with maintaining compliance across UK and Irish markets.
Market	5. Cross-border competition: More consumers from the Republic are shopping in the North. Weaker sterling has made Northern Irish retailers increasingly price-competitive.
	6. Margin erosion: In the short term, Irish retailers are selling UK-sourced products at significantly reduced margins. In many instances, products were bought at higher older exchange rates. Retailers are not benefiting from weaker sterling but reducing their margins to remain competitive.
	7. Online competition: UK-based online businesses are well developed and have strong Irish market penetration. Currency volatility is currently giving them a competitive cost advantage in Ireland.
	8. Upward price pressure: New duties and customs checks could make UK imports more expensive. This could also cause suppliers to pass on these costs to retailers and necessitate retailers passing on costs through higher consumer prices.
	9. Declining consumer sentiment: A slowdown of the UK economy will impact Irish economic performance and cause a decline in Irish consumer sentiment. The retail sector is the first to feel downturns in consumer sentiment, and experiences them acutely.



What's ahead in Manufacturing?

Assembling alternatives: Trade barriers and two jurisdictions make twin challenges

Irish manufacturing in 2015 had a net sales value of €52.6 billion, excluding the pharmaceuticals and food sectors, contributing to 21% of Irish GDP. There are 14,600 manufacturing businesses in Ireland employing 159,000 people. Indigenous manufacturers account for 23% of total Irish manufacturing turnover.

UK links

Certain Irish sectors are over-reliant on the UK market. For example, 70% of Irish timber is exported to the UK every year.¹⁹ Cheaper sterling has already increased competitive pressure for Irish manufacturers exporting to the UK. In 2015, Ireland exported €15.6 billion (13.9%) of goods to the UK. The largest three manufacturing sector goods exported to the UK were: medical products (€1.5 billion); organic chemicals (€1.0 billion); and essential oils, perfume materials (€0.8 billion). UK and Irish manufacturing industry supply chains are tightly integrated, both between the Republic and Britain and north-south on an all-island basis.

Key trends

Irish manufacturers have already undertaken extensive cost-cutting over the last 10 years and continue to operate on tight margins. Irish SME manufacturers rely heavily on bank funding and particularly short-term funding.

Medical technology

Ireland is one of the largest exporters of medical technologies (MedTech) in Europe with annual exports of €8.5 billion and the Irish MedTech sector is a prime contributor to Irish economic growth, representing 9% of all exports. Some 29,000 people work in MedTech across 450 businesses, making Ireland the second largest MedTech employer in Europe per capita. The sector is diverse with 18 of the world's top 25 MedTech companies having a base in Ireland.

UK links

MedTech operates in a highly regulated environment which is undergoing change in Europe with the imminent introduction of new regulations. However, the UK approach to compliance with current and future European regulation for medical technologies is uncertain. MedTech manufacturers in Ireland frequently use UK-based regulatory bodies, also known as Notified Bodies, to assess devices for placing on the EU market.

Key trends

The MedTech industry is characterised by rapid and frequently iterative product design and development undertaken by large multinationals, and both established and disruptive SMEs.

With potential regulatory instability facing the industry, it will be increasingly important to capitalise on Ireland's reputation as one of the top five global hubs for MedTech.

19. Coillte, "Irish sawmills exporting over 70% of their production to the UK"

Key Brexit impacts for the Manufacturing sector

Impact	Key issues
Currency	1. Weak Sterling: Weak sterling makes Irish goods more expensive in the UK and UK substitutes are more attractive to UK businesses.
Supply chain	2. Interlinked supply chains: Non-tariff barriers will introduce new costs and time delays for Irish manufacturers with interlinked supply chains across the UK and Ireland.
	3. Capability gaps: The introduction of trade barriers will require Irish manufacturers to invest in capabilities to fill gaps in trade experience. These capabilities may be scarce and in high demand following Brexit.
Finance and funding	4. Investment decisions paused: Investment decisions are being put on hold as a result of Brexit uncertainty.
	5. Access to finance: Brexit-based uncertainty may cause a slowdown in the UK economy, reduce demand for Irish exports and in turn make lenders less inclined to support Irish business. This risk is particularly relevant for Irish SME manufacturers.
	6. FDI opportunity: The UK's loss of Single Market access may make Ireland a more attractive location for FDI.
Tax	7. Financial trade barriers: The introduction of tariff and other tax barriers may increase the cost of Irish manufacturing exports to the UK. It may also increase the cost of UK imports into Ireland, impacting both finished and unfinished products.
Regulation	8. Divergent standards: Regulatory divergence from EU standards may require Irish manufacturers to meet new UK standards. This could increase costs and complexity to produce for Irish business. Divergences could include new content, labelling and process requirements specific to the UK.
	9. Switching notified body: Medical devices must adhere to stringent EU regulations. Regulators, known as notified bodies, ensure products meet required European standards. Irish producers with approvals from UK regulators may need to switch to notified bodies in other EU countries to retain Single Market compliance.
Market	10. Over-reliance on UK market: Some Irish manufacturing sectors are overly reliant on the UK market. This makes them more prone to Brexit impacts and makes business planning harder. Irish SME manufacturers are more exposed to this risk than international businesses with Irish operations.
	11. New market entry: With so many uncertainties in the UK, Irish manufacturers are assessing how they could enter new EU and international markets. Irish business, particularly small firms, have limited experience in developing other channels in new markets, and it can typically take 3-5 years.
	12. Competitiveness: Irish manufacturers are assessing whether operating in both the UK and the Republic will remain viable following Brexit. Moving production to the UK may limit heightened currency and trade risks of serving the UK market. This will be more difficult for SME businesses as the investment and skills required may not be easily accessed.



What's ahead in Food and Drink?

Tough to digest: food and drink exporters already impacted

The UK is Ireland's largest trading partner for food and drink and Ireland is the UK's second-largest supplier of food and drink. 37% of Irish food and drink exports go to the UK (€4.4 billion) including 65% of all prepared consumer food exports, 50% of beef, 30% of dairy (including 60% of cheddar) and 32% of alcohol. A number of industries in the food sector are run on tight margins. The sector is jobs-intensive, deeply embedded in local economies and spread across all regions. Since the 2008 financial crisis, Irish manufacturers, and in particular food processors, have implemented very effective productivity and change strategies through lean and other measures. This was critical to improving the overall competitive position of Irish exporters and, together with State support through the Enterprise Stabilisation and Employment Subsidy Schemes, the sector overcame the challenge posed by the financial crisis.

UK links

UK and Irish food and drink industry supply chains are intrinsically linked: east-west between the Republic and Britain and north-south between Northern Ireland and the Republic. The fall in the value of sterling, which is structural as opposed to cyclical, has already intensified the competitive pressure on Irish exporters into the UK. Currency- and commodity-related import food inflation in 2010 was passed on to UK consumers through higher food prices.

Key trends

Deflationary food prices, low margins and a highly competitive UK retail sector makes price recovery more difficult. In conjunction, Irish food and drink companies went through an intensive period of increased efficiency measures, greater capital deepening and business transformation during the recent recession. Most food processors have limited opportunities for further productivity gains.

Hard discounters have doubled their market share to 20% at the expense of larger retailers over the last six years, creating a stronger focus on consumer prices and increasing cost pressures on food processors.

Sterling's depreciation was the main trigger for a fundamental realignment of supply chains in the domestic grocery sector which saw packaged consumer foods imports rise from €1.96 billion in 2006 to €2.35 billion in 2010 and to €2.75 billion in 2012 – a period of decline in the overall grocery market. Any economic hit for the sector would have a disproportionate knock-on impact on the wider economy.

Key Brexit impacts for the Food and Drink sector

Impact	Key issues
Currency	1. Weak sterling: A weak sterling makes Irish exports more expensive in the UK and UK substitutes more attractive to UK consumers. This makes it much more difficult for Irish companies to maintain competitiveness, retain market share and secure revenue returns. Bord Bia has estimated the loss in export value to the UK in 2016 at €570 million.
	2. Currency volatility: With so many uncertainties, Brexit negotiations are likely to mean additional currency volatility into the future. This makes business planning and investment much more difficult.
Supply chain	3. Interlinked supply chains: Many firms around Ireland use materials or production processes that start in one jurisdiction and are finished in another. These companies are particularly exposed to any trade barriers and tariffs.
	4. All-island production: The supply chain relationships between Northern Ireland and Ireland are particularly intertwined. Dairy, beef, live animals and other ingredients and intermediate products all cross the border in both directions for processing.
	5. UK supplier review: UK food producers and retailers are reviewing their supply chain policies. If currency movements or trade barriers increase the price of Irish goods, Ireland's attractiveness as a supply base for UK customers will fall.
	6. Domestic sourcing policies: In the UK and elsewhere in Europe, some retailers are developing domestic sourcing policies for beef and dairy. Piloting of mandatory country of origin labelling for beef and dairy ingredients is starting in France and has been proposed in other states. This increases the challenges of diversification.
	7. New transport and customs barriers: Many Irish food and drink producers transport produce through the UK to other EU markets as well as directly to the UK. Any trade barriers with the UK would disrupt and add costs and time to this process.
Finance and funding	8. Access to finance: Brexit-based uncertainty may cause a slowdown in the UK economy, and reduce demand for Irish exports. This risk is particularly relevant for smaller Irish-owned and operated food and drink producers.
Tax	9. New tariff barriers: Any new tariffs introduced as part of a new EU-UK trading relationship could significantly increase the cost of Irish goods in the UK market. If current WTO tariffs were to apply, this would have a dramatic effect on the viability of many Irish food products in the UK market, potentially increasing prices by up to 60%.
Regulation	10. Regulatory divergence: Regulatory divergence from the EU norm may require Irish food and drink producers to meet new UK manufacturing, labelling and packaging standards and certification requirements. This could increase costs and complexity to produce for Irish business.

Key Brexit impacts for the Food and Drink sector / continued

Impact	Key issues
Market	11. Limited scope to cut costs: Irish food and drink companies went through an intensive period of efficiency and cost-cutting during the recent recession. There is limited scope for further savings to maintain price competitiveness in the UK market.
	12. Intense retail competition: The growth of hard discounters in the UK retail market and aggressive competition across the retail sector has put additional pressure on Irish producers to remain price competitive. This is exacerbated by a weak sterling. It is very difficult to pass on cost increases to customers/consumers.
	13. Similar consumer market: The UK is a very advanced, high-value food and drink retail market. UK consumers are much closer to Irish tastes than other EU or global markets. Trade diversion is complex and can result in less value being placed on exports. This makes market diversification away from the UK very difficult for Irish producers.
	14. Operating structure: Irish food producers are assessing whether moving production to the UK will help offset the heightened currency and trade risks of serving the UK market. This is particularly the case for companies with existing production in the UK. It is also being proposed/encouraged by some UK customers. This is more difficult for Irish SME producers with limited resources to expand or relocate their businesses

What's ahead in Financial Services?



Other side of the coin: Ireland to attract UK-based financial services business post Brexit?

According to the latest available official statistics, the Irish financial services (FS) sector had a turnover of more than €50 billion in 2012.²⁰ The outlook is for strong potential growth out to 2020 and beyond.²¹ The sector comprises domestic and international banks and insurers but also incorporates more specialised FS businesses in fund and asset management, reinsurance, treasury, specialist lending such as aircraft leasing and more recently, fintech and payments. A total of 38 institutions hold Irish banking licences. 13 of these have a significant involvement in the Irish domestic banking market.²² The insurance industry holds €200 billion in assets in Ireland. A significant majority of the more than €20 billion in cross-border life insurance business written in Ireland each year is in single-premium savings and investment products.²³ The Irish funds industry has more than €1.8 trillion in funds administered and €3.8 trillion of assets under administration. Ireland is the fourth-largest exporter of financial services in the EU with international financial services (IFS) accounting for 10% of Irish GDP. 250 of the world's leading FS firms, including half of the world's top 50 banks and half of the top 20 insurance companies, have internationally-focused operations in Ireland, employing more than 40,000 people in 20 counties around the country.²⁴

UK links

Ireland's domestic banking sector has close links to the UK. The three largest retail banks all operate across the island of Ireland and have operations in the UK. Following the vote to leave the EU, IFS-businesses based in the UK may consider relocating to maintain Single Market access and passporting rights. The UK is a key source for IFS jobs in Ireland and many Irish FS professionals work or have worked in the UK during their careers.

Key trends

The EU regulatory environment is key to facilitating the FS single market. Under the relevant single market directive, a Financial Services firm authorised in a European Economic Area (EEA) state is entitled to carry on permitted activities in any other EEA state by either exercising the right of establishment (of a branch and/or agents) or providing cross-border services, referred to in Financial Services and Markets Act 2000 (FSMA) as an EEA right. This right is known as 'passporting'. The activities that are 'passportable' are set out in the relevant EU single market directives. Dublin is competing as a relocation destination for City of London businesses, alongside Frankfurt, Amsterdam, Luxembourg, Paris, and for some activities, Warsaw.

The Central Bank of Ireland (CBI) has received queries from international institutions about locating businesses in Ireland.

London is currently the EU's largest fintech hub. It is an attractive start-up location, enabling entrepreneurs to start businesses in a very large and mature FS market. Dublin has a smaller but highly developed fintech ecosystem.

20. CSO data

21. CSO data

22. FSI Data

23. Insurance Ireland, "Ireland for Insurance"

24. IDA, "Delivering Global Financial Services"

Key Brexit impacts for the Financial Services sector

Impact	Key issues
Finance and funding	1. Financial firms may seek to relocate in Dublin. A report by Bruegel, the independent think tank, estimates that a significant portion of wholesale banking activity currently located in London could seek to relocate in Dublin, where clients within the EU27 will still be servable.
Workforce	2. Demand for talent: As new institutions locate in Ireland, there is likely to be rising demand for qualified staff – especially for those with prior approvals from CBI. More international talent will also be attracted here.
Technology	<p>3. Data protection: Post Brexit, the UK may not be afforded data protection equivalence. This may affect how and where businesses based in Ireland host consumer data for UK and EU customers. This will impact how FS businesses operate in Ireland, given the international focus on the IFS sector and the interconnectedness of domestic businesses with the UK market.</p> <p>4. Attracting fintech: Following Brexit, London may become less attractive for start-ups as access to the Single Market is restricted and immigration controls are put in place. This presents an opportunity for the Irish FS sector to attract fintech businesses.</p>
Tax	5. New trading barriers: Irish FS businesses with UK operations currently avail of EU tax reliefs and other Single Market benefits. Following Brexit, there may be tax implications for Irish-based FS businesses with operations in the UK. Services may be subject to new taxes, increasing the cost and making business between the two islands harder.
Regulation	<p>6. Access to infrastructure: Following Brexit, UK financial institutions may lose their rights to passporting across the EU, impacting access to key international financial infrastructure. Relocating to remain in the EU will allow businesses to continue accessing infrastructure and schemes, including SEPA and Target 2, messaging standards, in markets: euro exchanges, euro clearing houses, central counterparties and central security depositories, etc. There is an opportunity for Ireland if UK-based businesses relocate here to maintain access.</p> <p>7. Getting approval to operate: The CBI's capacity to process new applications efficiently and to engage with new companies consistently as they acclimatise themselves to Ireland will be important to maintain confidence in Ireland as a location in which to operate. If the number of licences grows, the CBI will need increased resources to regulate a larger financial services sector.</p> <p>8. Regulatory divergence: The UK may diverge from EU norms and require institutions operating within and outside the UK to deal with dual regulatory regimes. There is likely to be increased regulatory complexity for Irish business operating in the UK – if, for example, the UK increased the basic requirements for open banking regulation beyond those of the EU's current Payment Services Directive.</p> <p>9. Loss of a policy ally: As the UK leaves the EU, it will no longer play a role in shaping FS regulation in Europe. Ireland benefited from aligning the interests of its FS sector with those of the UK. The UK's absence in the future will present new challenges for Ireland's FS sector and will require Ireland to form new EU alliances on FS policy.</p>

Impact	Key issues
Market	10. Risk of market volatility: Brexit impacts for FS include increased uncertainty, market volatility, revised cost of funding, revised access to liquidity, fluctuating exchange rates, interest rates, growth rates, ratings, and revised risk. These factors could impact interbank lending, funding from the European Investment Fund and other institutions, trading facilities and access to European Central Bank liquidity pools.
	11. Increased competition in the Irish market: The increased presence of UK institutions locating in Ireland post Brexit could affect local banking and insurance markets both in terms of competitive pressure but also technological change.
	12. Loss of UK market access: Irish-based firms selling services into the UK may be impacted by changes to passporting rights and could see costs in the UK increase as a result of new trading barriers.
	13. Increasing demand for limited resources: If more companies relocate to Ireland following Brexit, there will be increased demand for limited office space, housing, and education. This is also an opportunity to spread IFS jobs further outside of Dublin and to promote regional locations, some which have existing FS hubs such as Cork and Limerick.
Operating structures	14. Disrupted legal structures: Following Brexit, Irish FS businesses in the UK may need to adapt existing cross-border entity structures to new circumstances. This will impact how profits or losses are repatriated/consolidated and how Irish-based businesses operate under new UK regulation and governance regimes.



What's ahead in Technology, Telecoms and AV?

Ireland calling: immigration restrictions and limited Single Market access hinder UK business

Ireland is the second-largest exporter (€57 billion per annum) of computer and IT services in the world. We exported €6.9 billion in computer services directly to the UK in 2015 and 24% (€225 million) of telecommunications and sound equipment exports. Ireland hosts some of the world's largest technology and telecoms firms with nine of the top 10 global software companies, four of the top five IT services companies and the top 10 'born on the internet' companies. Measured on a per capita basis, Ireland has more venture funding available than in any other country in Europe. More than €800 million is available through seed, venture and angel capital firms.

UK links

Businesses locating in Ireland have access to the Single Market, an English-speaking workforce and the same time zone as the UK. Ireland attracts a broad range of top technology talent through leading international companies that are based here and the quality of life available. Ireland has become the European data centre location for many recognisable global internet and cloud brands. The UK also has considerable data centre businesses. In many instances, businesses have data centres in both Britain and Ireland to service different markets. Ireland hosts the major regional headquarters at EMEA (Europe, the Middle East and Africa) or EALA (Europe, Africa and Latin America) levels for many larger technology companies.

Key trends

All EU-based organisations and start-ups currently have access to the EU Digital Single Market (DSM). It aims to improve access to digital goods and services, enhance digital networks and services, and harness digital for economic growth in Europe. The GDPR (EU General Data Protection Regulation) will be in operation from 2018. This regulation is designed to strengthen and unify personal data protection for individuals across the EU.

Key Brexit impacts for the Technology, Telecoms and AV sector

Impact	Key issues
Currency	1. Weak sterling: Weak sterling makes Irish exports more expensive in the UK. This makes it much more difficult for Irish technology and audiovisual businesses to compete on pricing in the UK.
Contracts	2. Moving jurisdiction: Irish-based technology and AV businesses currently contract with UK and international customers under UK law. Following Brexit, firms might not be guaranteed the same legal protections they enjoyed during the UK's membership of the EU. Businesses may have to move contracts to a new jurisdiction in the EU to continue receiving the same rights and entitlements under EU law.
Workforce	3. Greater access to talent: There is a huge drive from companies based in Ireland to attract more international talent here. Brexit immigration restrictions and limited Single Market access, coupled with Ireland's dynamic technology scene, may make Ireland even more attractive to EU and international citizens as a location to develop their technology or AV careers.
Tax	4. New Trade barriers: Any new tariff or non-tariff barriers introduced as part of a new EU-UK trading relationship could significantly increase the cost of Irish technology exports in the UK market.
Regulation	5. Regulatory divergence: The UK might not ratify the GDPR in 2018 during the Article 50 negotiations process. This would prevent it from receiving regulatory equivalence for data protection. This would restrict how Irish business host consumer data for UK and EU customers and would impact how businesses operate in Ireland, given the level of business interconnectedness that exists. It could also be an opportunity for Ireland to acquire more EU data centre business as customers move away from the UK data centres.
Market	6. Maintaining DSM access: Post Brexit, Ireland could provide continued access to the DSM for businesses wishing to relocate within the EU.



What's ahead in Education?

Double lesson: new research partners sought, scope to attract academic talent

The UK and Ireland are part of a connected Anglophone higher education network. These connections are between institutions, academics, and students all contributing to research and shared learning outcomes. Student numbers in Ireland are set to increase significantly over the next 15 years, including a 30% increase on higher education students by 2030 compared with 2012 volumes. All Irish institutions will need to address potential demographic challenges. Austerity has also had a significant impact on Irish higher education and funding of Irish institutions has been consistently poor.

UK links

There is a high degree of student and academic mobility between the UK and Ireland. There are 12,000 Irish students currently studying in the UK; 791 NI students in Ireland; and 2,000 Irish in Northern Ireland. Ireland is the seventh-largest source country for students in the UK. There are 2,330 Irish academics in the UK university system. There is a shared academic career system and environment for post-graduate and post-qualification experience. Post-doctoral fellows, early stage researchers, mid-career and senior academics seek opportunities in each other's domain. The UK and Ireland have a long history of cooperation on educational initiatives including the EFFECT (European Forum for Enhanced Collaboration in Teaching) and Erasmus+. At present, Erasmus applications to study in Ireland are three times oversubscribed. The UK Government has indicated it is eager to continue to collaborate with European partners on major science, research, and technology initiatives.

Key trends

The UK has played a prominent partnership role in the acquisition of Ireland's research funding. Partnering with two other EU member states for funding is an essential element of the EU research application process. The current research framework, Horizon 2020, is the biggest EU Research and Innovation programme ever with nearly €80 billion of funding available. The UK is Ireland's largest research partner under Horizon 2020 with 13.4% of projects won, followed very closely by Germany (13.3%) and Spain (10.9%). In the previous EU research framework, 72% of total Irish drawdown for projects involved a UK partner. The British Prime Minister has indicated that the UK will seek agreement to continue to collaborate with its European partners on major science, research, and technology initiatives.

Key Brexit impacts for the Education sector

Impact	Key issues
Supply chain	1. New trade barriers: If introduced, new tariffs and customs checks will make sourcing from the UK less attractive for Irish educational institutions.
Finance and funding	2. Reduced access to funding: The current level of interconnection between Irish and UK research projects may not continue following Brexit. This may reduce the amount of EU research funding Irish institutions can access. In the short term, during the negotiation process, Irish applications with UK partners may be judged less favourably because of the UK element of the project. However, there may be opportunities to develop new partnerships with other EU higher education institutions and attract large EU flagship projects/centres to Ireland.
	3. Cross-border collaboration: There are a number of cross-border educational initiatives, like the EU-run and funded INTERREG programme, which may no longer be viable following Brexit.
Market	4. Restrictions on immigration: The UK is a popular destination for international students. Post-Brexit EU immigration restrictions may have an impact on international education programmes such as Erasmus+ and high-prestige degree programmes such as medicine by limiting the availability of university places all non-UK students. Irish students might move from the lower fees of EU citizens to the higher international fees in the UK, making education much more expensive and much less accessible. Irish students may have fewer opportunities to study in the UK.
	5. Increased demand: Post Brexit, possible new UK immigration rules will place greater pressures on Irish institutions as more Irish students opt to stay in Ireland. It is likely that more EU and international students will apply for places in Irish institutions as access to the UK is reduced, placing further demand on Irish institutions.
Workforce	6. Professional development: Following Brexit, Irish academics may have limited access to the UK, reducing research opportunities but also limiting early career development and professional training experiences.
	7. Attracting more international talent: As the largest English-speaking nation within the EU, Ireland could become a major education destination for international students and academics unable to live and work in the UK due to immigration restrictions. However this will require significantly increased investment in education and research to provide the Irish system with the required capacity.
Regulation	8. Loss of policy ally: There is a history of higher education policy sharing between the UK and Ireland. Brexit could change how Ireland approaches education policy at an EU level as the UK will no longer be involved in these policy discussions.
	9. Divergent regulation: Divergence in UK and EU research regulations over time could negatively affect how ongoing and future Irish research with UK institutions is conducted. For example, changes in standards on health and safety, ethics and funding, could damage the research process and outcomes.



What's ahead in Energy?

Power cut: energy dependency vulnerable to possible trade disruption

Ireland has an overall import energy dependency of 85%. In 2014, 97% of Irish energy imports were fossil fuels; oil (56%), natural gas (31%), and coal (10%). The remaining 3% of Irish energy imports were electricity (2%) and biofuels (1%). Electricity network infrastructure is currently being planned and run on an all-island basis. Renewable energy capacity is also expanding, a new procedure to integrate wind power has been introduced, and there has been a large increase in investment in energy-related research and development over the last 10 years.

UK links

The British and all-island electricity markets are connected through the East West Interconnector and the Moyle Interconnector. The Irish and UK gas markets are connected through the Moffat Interconnector and the Scotland to Northern Ireland Pipeline (SNIP). 46% of Irish electricity generation comes from natural gas. Roughly 40% of gas powering Irish homes, businesses and power stations comes from the Corrib field with the remaining 60% arriving from Britain via Moffat.

Several energy providers (and also the network operators) have business interests/HQs and operations in the UK. While Ireland is a net importer of electricity from Britain, Northern Ireland is a net importer of electricity from Ireland.

Key trends

Due to declining North Sea oil and gas production, the UK is now a net importer of crude oil, oil products and natural gas. It increasingly sources its energy imports from outside the EU and the OECD, and this has a knock-on effect on Irish energy security.

The European Commission has driven an energy markets harmonisation policy for 25 years and the UK has been at the forefront of this agenda. Following the 2009 energy crisis, EU regulations provided for the sharing of energy resources between member states in emergency circumstances.

A major element of the EU climate and energy framework is the European Union Emissions Trading System (EU ETS), the largest greenhouse gas trading scheme in the world. Under a 'cap and trade' model, a maximum (cap) is set on the total amount of greenhouse gases that can be emitted by all participating installations. Emissions allowances are auctioned, and then traded among participants of the scheme. The UK also has national commitments as an EU Member State under the Effort Sharing Decision/Regulation.

The biggest project currently underway in the Irish electricity sector is the establishment of I-SEM (Integrated Single Electricity Market). It is a set of new common EU guidelines, procedures and codes to enable a single wholesale electricity market so that electricity and gas can be traded freely across the EU.

A long-term objective of Internal Energy Market (IEM) is to connect Ireland to the mainland Europe electricity market through a French interconnector, making the EU more interconnected. It is uncertain how the project costs and associated benefits would be shared between Ireland and France.

Key Brexit impacts for the Energy sector

Impact	Key issues
Supply chain	1. I-SEM impact: If Northern Ireland leaves the I-SEM post Brexit, Ireland's market would become less efficient as it will have to engage with both UK and EU energy regimes. It will also leave Ireland exposed to UK market-specific risks outside the remit of EU regulation and supervision.
	2. Longer-term energy security: Ireland relies on the UK for energy supplies and currently has guaranteed access to emergency energy supplies under EU law. Post Brexit, the UK would not be bound by EU regulation and it may be more difficult for Ireland to access supply in an emergency.
Finance and funding	3. Investment uncertainty: Energy is a long-term business and the sector requires as much certainty as possible to invest.
Tax	4. New trading barriers: Following Brexit, the introduction of tariffs and non-tariff barriers could increase costs for energy providers and consumers in both Ireland and the UK.
Regulation	5. Carbon trading scheme disruption: Post Brexit, the UK may not be subject to the EU ETS and could increase the price of carbon credits or change its emissions targets. This could make Irish energy imports more expensive. NI could also remain in the I-SEM and as a result potentially distort competition between generators.



What's ahead in Transport and Tourism?

Stop the bus: transport and tourism impacted by UK immigration restrictions and border controls

Transport

The Irish transport sector is made up of roads, rail, marine, and aviation transport. There were 9.8 billion road freight tonne-kms driven; 99.8 million rail freight tonne-kms 50 million tonnes of goods handled through marine routes; and 149,700 tonnes of air freight in 2015. Irish public transport had 224.1 million passengers in 2015. The Irish government had almost €1.5 billion in transport expenditure in 2015.

UK links

There is a Common Travel Area between the UK and Ireland. This means there are no physical or financial customs barriers preventing the movement of people and goods between the two jurisdictions. For example, freight can leave Ireland on a truck designated as airfreight as long as it is then flown from a UK airport. Ireland and Northern Ireland have a highly integrated transport network with extensive cross-border road and public transport connections

Key trends

The Common Travel Area has allowed businesses, especially agri-food and manufacturers, to operate on an all-island basis. This means that raw materials, semi-finished and finished goods are transported between both jurisdictions in large volumes on a daily basis. It also allows large UK and Irish retail chains to operate island-wide supply chains. EU air service agreements and traffic rights underpin air travel to and from the UK. These will lapse under Brexit and will need to be renegotiated or placed on a new legal footing for connections to be maintained. The EU-US Open Skies Agreement and the European Common Aviation Area (ECAA) allow EU- and US-owned airlines to fly between any points in the US and EU. Airlines need to hold a US or EU aviation licence to access these agreements. Majority control and ownership by EU nationals is required to receive an EU aviation licence.

Tourism

The tourism sector was particularly exposed to the recession, with reduced visitor numbers and spending as consumer confidence weakened both in Ireland and internationally. Tourism is one of the island of Ireland's largest indigenous industries, responsible for more than 4% of GNP in the Republic of Ireland and employing approximately 143,500 people.

UK links

In 2016, approximately 10.5 million overseas visitors generated roughly €5.4 billion in revenue to the island of Ireland. There are over 3.5 million journeys made from the UK to Ireland every year, including both UK residents and international tourists coming through the UK. Most UK visits to Ireland are for leisure. Currently, the UK and Ireland recognise each other's visas for international tourists. The UK allows travellers to enter on an Irish tourist visa and Ireland does the same with UK visas

Key trends

Among other measures to revive the sector, Irish tourism VAT was reduced to 9% and a special tourism event, The Gathering Ireland, was launched for 2013. The sector has returned to growth over the last three years with record visitor numbers in 2016.

Key Brexit impacts for the Transport and Tourism sector

Impact	Key issues
Currency	1. Weaker sterling: Weaker sterling is making Ireland more expensive for UK tourists. This will have a knock-on impact for Ireland's tourism sector and may also reduce the volume of business travellers to the island.
Supply chain	<p>2. New trading barriers: Brexit is likely to cause a significant increase in new tariff and non-tariff barriers. This will mean increasing the volume of customs declarations as goods are transported in and out of the UK, delays in airports and ferry terminals as passport and visa checks increase and an increase in the administrative burden driving up logistical costs.</p> <p>3. NI border: Should new trade barriers be introduced, it will be hard to create a fit-for-purpose customs process for the land border following Brexit. This would reduce the volumes of goods and people moving across the border due to delays and increased costs of transporting goods in and out of Northern Ireland.</p>
Finance and funding	4. New customs investment required: Post-Brexit introduction of new trading barriers may require installation of new customs equipment such as customs cages to hold stock for examination. Businesses will also need to apply new internal customs processes.
Regulation	<p>5. New business status: Following Brexit, businesses may need additional licences to import and export out of the UK. (e.g. becoming an Authorised Economic Operator). These licences are expensive and take time to acquire.</p> <p>6. Ownership impact: EU airlines require majority EU ownership to operate. Post Brexit, UK shares of an airline may no longer contribute to EU ownership. Affected airlines would no longer be compliant with EU ownership rules, and would lose their EU licences and access to Open Skies and ECAA.</p> <p>7. Aviation rights: Air traffic rights between Ireland and the UK are governed by EU agreements. Unless agreed otherwise, Brexit will mean that the UK will exit these arrangements. Traffic volumes and connectivity could be impacted and new air service agreements and bilateral agreements required.</p> <p>8. Registration of transport vehicles: Following Brexit, non-UK aircraft and shipping may not be able to register to operate in the UK. This could impact Irish- and EU-owned transport companies operating in the UK.</p>
Market	9. Visa restrictions: Brexit could impact the British-Irish Visa Scheme and reduce the volume of international short-stay tourists coming to Ireland as part of planned trips to the UK.
Operating structure	10. Changes in demand profile: Restrictions on movement of goods and people in and out of the UK may result in changes to the demand profile on logistics and transport network with implications for business models and network structures.



What's ahead in Biopharma?

The hard cell: Ireland's post-Brexit chance for increased biopharma investment

Irish biopharma manufacturers export more than €39 billion a year and employ over 25,000 people directly and a further 25,000 indirectly around Ireland. In 2015, €1.5 billion in Irish pharmaceutical products were exported to the UK. Around 120 international biopharma companies operate in Ireland today, including nine of the ten largest pharmaceutical companies in the world. The sector has made a capital investment of approximately \$8 billion in new facilities in Ireland, most of which has come in the last ten years. The main pharmaceutical activities in Ireland are R&D, global business service centres, high-value manufacturing, headquarters, Intellectual Property management, and supply chain management. The industry has significantly diversified in Ireland recently, with ten new facilities dedicated to the manufacturing of therapeutic proteins or vaccines. 34 Irish pharma and biopharma facilities have US Federal Drug Administration approval.

UK links

Through programmes such as Horizon 2020 and the Innovative Medicines Initiatives (IMI), the EU provides funding and coordinates research collaborations. The UK is Ireland's most significant partner when securing EU research funding. There have been a number of pharmaceutical and biopharmaceutical-related research centres and clusters established in Ireland with EU and national funding. Cross-border research initiatives have also been established. Pharmaceutical research and development accounts for 20% of all Irish business R&D spend.

UK and Irish biopharma supply chains, manufacturing capabilities and distribution methods are highly linked. For example, materials for products are sourced internationally, the product is manufactured in Ireland and then shipped to the UK for global distribution. These businesses include global leaders in the sector with UK headquarters.

Key trends

This is a highly regulated sector with EU and national regulators supervising human and veterinary medicines, medical devices, blood components, human tissues and cells. At EU level, the sector is regulated by the European Medicines Agency (EMA) which is based in London. Ireland is bidding to host this Agency in the future, as it will have to move once the UK leaves the EU.

Key Brexit impacts for the Biopharma sector

Impact	Key issues
Supply chain	1. Interlinked supply chains: Any new trade barriers will introduce costs and time delays for international biopharma businesses with interlinked supply chains across the UK and Ireland. They will also disrupt products in transit to and from Ireland through the UK from mainland Europe.
Contracts	2. Slower ratification of the UPC: The UK is currently a compulsory member of the committee to ratify the establishment of the UPC. Following Brexit, the UK may no longer participate in this pan-EU initiative and as a result the implementation of the Unitary Patent will be delayed. It is likely that claimants to the UPC will also have to start separate parallel proceedings in the UK to defend patents.
Finance and funding	3. Investment decisions paused: Biopharma investment decisions are being reviewed as a result of Brexit uncertainty. Ireland could benefit from companies wanting to ensure investment is made within the Single Market.
	4. Reduced access to funding: The current level of interconnection between Irish and UK research projects through Horizon 2020 and the IMI may not continue following Brexit. This may reduce the amount of EU research funding that Irish biopharma businesses can access and impact the volume of cross-border collaboration.
	5. Planning uncertainty: Lead times in biopharma are often longer than in other, more rapid manufacturing industries; plans are completed in years as opposed to months. Brexit-related uncertainty will make business planning, investment and supply chain management more difficult.
Tax	6. New tariff barriers: The introduction of new tariff barriers will increase the cost of Irish biopharma exports to the UK. They may also impact the cost and availability of Irish imports from the UK.
Regulation	7. Regulatory divergence: Regulatory divergence from the EU norm may drive significant cost for biopharma companies selling to the UK. The UK could move away from EU standards on medicines and medical devices regulation, IP protection mechanisms (including regulatory data protection, supplementary protection certificates, and orphan and paediatric incentives) and existing EU regulatory procedures.
	8. Disruption to the regulator: The EMA is currently based in London and following Brexit will need to relocate within the EU. This could disrupt the EMA's approval process and increase approvals lead times for medicines and devices across the EU.
Operating structure	9. Relocation of operations: BioPharma businesses are looking at ways they could remove the UK from supply chains by shipping goods directly to mainland Europe from Ireland, which could lead to the re-location of production, support services and distribution from the UK to Ireland or other EU locations.



What's ahead in Property?

New foundations: UK exposure, but new FDI could boost demand at home

The building and construction sector had a turnover of €14.2 billion in 2014. In 2014 there were 47,349 enterprises operating in the sector. The majority of these, 97%, are small firms employing less than 9 people.

The numbers employed in construction and real estate activities amounted to just over 150,000 at the end of 2016. These numbers do not include those employed in the financial services sector in mortgage or real estate finance departments.

Quarterly National Accounts data show that in quarter 1, 2017 building and construction investment amounted to the equivalent of 7.1% of GDP in nominal terms (6.7% in volume), much lower than the level of 12% of GDP viewed as the norm. This is down substantially from a peak of 21% of nominal GDP in the third quarter of 2006. In volume terms the peak had been reached a year earlier, in quarter 2, 2005 at over 16%.

However, the broad nature of the property sector, which includes businesses ranging from architects, planners and surveyors to developers, estate agents and funders means that the majority of the statistics reflect only the building and construction component.

UK links

Many Irish construction, contracting and building material manufacturers have an exposure to the UK market. Data on Ireland's international trade in services show that in 2015 13.2% of Ireland's exports in architectural, engineering and other technical services were destined for the UK, which represented €31 million of these exports. The corresponding imports amounted to €6 million. Detailed statistics for Ireland's trade in goods allows us to extract data from the export and import of many construction sector related products. This shows that exports of construction related products and materials rose from €564 million in 2014 to €691 million in 2016. Ireland enjoys a trade surplus on trade with the UK in construction and building related products. Imports of these products amounted to €324 million in 2014 and €370 million in 2016.

Key trends

Across many property sectors activity levels have improved since the economic downturn. Although turnover in 2014 represents an improvement on both 2012 and 2013 it is still substantially lower than the turnover of €38.1 billion recorded for 2008. Employment levels in construction and real estate services hit a low of 105,000 in the first quarter of 2013 but have risen to over 150,000 by the end of 2016.

The years 2011 to 2013 saw little or no construction activity taking place, with high vacancy rates in commercial office space. Strong economic activity levels, inflows of FDI and increasing employment have resulted in a large pick-up in commercial construction. Population growth, household formation, coupled with the growth of employment have resulted in strong demand for both owner-occupancy and rental accommodation. Although supply has increased it is not yet meeting demand levels and this is reflected in both house price and rental growth.

In the longer term Brexit is expected to have a negative impact on the Irish economy. A slowdown in economic activity would result in a slowdown in the property sector.

Key Brexit impacts for the Property sector

Impact	Key issues
Currency	1. Weak sterling makes building materials manufactured in Ireland more expensive in the UK.
Contracts	2. The sector is already experiencing resource constraints. Immigration restrictions with the UK could limit the traditional flow back and forth of construction workers and skills.
Market	3. Increased demand: The attraction of some Brexit related FDI is likely to increase demand for commercial and residential building as well as infrastructure such as schools.
Tax	4. New tariff barriers: The introduction of new tariff barriers would increase the cost of building material and service exports to the UK. They would also impact on the cost and availability of materials from the UK.
Finance and Funding	5. Access to finance: Brexit-related uncertainty may cause a slowdown in the UK economy, reduce demand for Irish exports and in turn make lenders less inclined to support Irish business.
	6. FDI opportunity: The UK's loss of Single Market access may make Ireland a more attractive location for FDI.
Regulation	7. Divergent standards: Regulatory divergence from EU standards may require Irish materials manufacturers and service providers to meet new UK standards. This could increase costs and complexity to produce for Irish business. Divergences could include new content, labelling and process requirements specific to the UK.
Supply chain	8. Interlinked supply chains: Non-tariff barriers will introduce new costs and time delays for Irish manufacturers with interlinked supply chains across the UK and Ireland.

Brexit Toolkit

**“No regret” actions to manage
Brexit in your business**

“No regret” actions to manage Brexit

Step 1: Contain

1. **Senior sponsorship:** Brexit has potentially far-reaching consequences for business. Ensure you give it the appropriate management attention. Make a member of your management team accountable for overseeing your company's response.
2. **Start a discussion:** Don't just assign the “Brexit problem” to a single person to analyse by themselves. Start by pulling together people from across your business into a room and use the framework we've provided to rapidly identify hypotheses and areas of exposure.
3. **Communicate widely and often:** Communicate your response to Brexit broadly, to leadership and the wider organisation, to reassure them and to ensure the organisation continues to work in a “business as usual” way.
4. **Build support networks:** Avoid duplicating effort and building expertise from scratch; use external support to accelerate your response. Engage in forums inside and outside your industry to share best practices, discuss any legislation changes and ways to connect with government officials and regulators. Don't go it alone.

Step 2: Assess

5. **Assess impact:** Understand the likely scenarios and size their impacts on the functioning of your business (supply chain, markets, workforce, regulation, pricing, locations for activities, operating model, systems, data, tax etc.). Deal in probabilities, not myths. Refer to assessing impact and planning your response section below.
6. **Sharpen strategies:** Evaluate existing strategies/programmes in light of the scenarios – where something is definitely or probably right, whatever the scenario, proceed at pace. Where only possibly right or worse, then reverse engineer to make right or postpone.
7. **Find the opportunities:** Scan for new opportunities which are enabled under the different scenarios. What advantages might emerge? Examples include regulatory advantage, new markets, staff utilisation, etc.
8. **Seek advice:** In areas of your business with limited or no capability, such as legal, finance, technology, customer, operations or talent, seek external advice. Professionals in these areas can advise on how best to improve these capabilities.
9. **Stay informed:** Ensure your business has the latest business-relevant information when planning for Brexit. Ibec is a source for pertinent and timely information concerning your sector and Brexit. In addition, be sure to attend industry events to remain connected to what is happening in the wider economy.

The businesses that will thrive in this uncertain environment are those who take action now to understand the challenges and opportunities, and take advantage of:

- Competitors failing to adapt quickly to changes in their operating environment
- Changes in consumer buying behaviours in order to create a more competitive business model
- Volatility in asset prices in order to acquire at the right time

We have identified “no regret” actions to guide businesses through this period of uncertainty.

Step 3: Position

- 10. Establish your position:** Establish what a desirable outcome for the business would look like, or more particularly, what trade-offs are preferable.
- 11. Establish channels:** Establish channel(s) to the Government for your position or work through existing collective channels (likely through a consolidator/co-operation to avoid fragmentation and ensure maximum impact). Ibec and Ibec's sector associations are actively working with companies to ensure that the concerns and priorities of Irish business are fully reflected in public policy.

Step 4: Take action

- 12. Contingency planning:** Prepare contingency plans from your business impact analysis and agree budgets. Postpone actions to when there is greater certainty unless lead times demand otherwise.
- 13. Monitor and prepare to act:** Identify the information sources you will use to monitor changes in the assumptions underpinning your scenario plans. Don't just focus on your business; monitor your partners and suppliers for contagion risk. Have budgets and approvals in place. Be ready to act.
- 14. Accelerate strategy:** Innovate your disruptive response – now is as good a time as any to innovate your business model or invest in different ways of working.

Impact assessment – future scenarios

The UK Government has stated that it will seek to leave the Single Market, the Customs Union as currently constituted and the jurisdiction of the European Court of Justice, while striving for a frictionless border with Ireland. What the world will look like for Ireland post-Brexit, however, will depend on the cut and thrust of the negotiations.

Businesses should avoid planning for just one outcome. Consider across the spectrum of exit scenarios and plan for the worst. Using the impact assessment tool, plan your likely responses to Brexit impacts and then stress test them using these guideline scenarios.

Scenario	Description
Amicable transition UK stays within the Single Market; four freedoms remain largely unaffected	<ul style="list-style-type: none"> ■ The UK maintains access to the Single Market ■ The UK is required to accept all EU laws and rules; some soft loosening of rules on immigration ■ Subsequently, new momentum in EU integration to remove some of the eurozone's systemic shortcomings ■ Short-term uncertainty of Brexit quickly overcome; financial markets recover relatively quickly post-exit ■ Long-term eurozone growth outlook may improve.
Special relationship UK leaves the Single Market; Ireland secures special arrangement on border	<ul style="list-style-type: none"> ■ The UK loses access to the Single Market ■ The UK has freedom to set policy/legislation in areas such as tax, employment law, inward investment and ownership ■ The EU agrees to a bilateral UK-Irish agreement on trade and customs, although some controls on movement of people and trade will be inevitable ■ Common Travel Area between Ireland and UK allowing for free movement of people.
Hostile separation No agreement between EU-UK; UK implements protectionist policies; threat of EU disunity increases	<ul style="list-style-type: none"> ■ Difficult negotiations: the EU defends its interests, discourages others from following the UK out of the EU ■ The UK leaves talks abruptly, with few agreements in place; UK-EU trade relations end up at the lowest point ■ Immediate removal of four freedoms (goods, capital, services and people) ■ The UK implements changes to law and tax regimes to encourage FDI and entrepreneurship, quickly makes trade agreements with non-EU countries. ■ Signs of EU disunity lead to uncertainty and growing economic instability.
Clean break UK leaves the Single Market and negotiates new trade deal with EU	<ul style="list-style-type: none"> ■ The UK loses access to the Single Market ■ The UK has freedom to set policy/legislation in areas such as tax, employment law, inward investment and ownership ■ EU common external tariffs in place while the EU and the UK negotiate preferential trade deals for goods and services ■ Border controls introduced, with restrictions on movement of people between Ireland and the UK ■ Economic growth impacted by burden of sentiment of UK-EU negotiations.

Assessing impact and planning your response

In the following section, we have identified actions that you can take to assess the impact and mitigate short-term risk against each of our ten themes (do now), and to plan your response and prepare your business (plan and be ready).



Currency

One of the immediate impacts of Brexit has been a weakening of sterling against the euro. As with all things Brexit, we don't know if this is temporary or a fundamental shift.

If you are exposed to sterling and you're not actively managing foreign exchange risk, then now is the time to ask what your risk is, what euro/sterling exchange rate can you sustain, and how does your business or minimise the risk of a long-term sterling weakness?

Checklist question	DO NOW	PLAN AND BE READY
<i>Do you buy or sell goods or services with the UK?</i>	<p>First, understand your level of exposure and protect yourself from short-term volatility:</p> <ul style="list-style-type: none"> ■ Identify areas of exposure. Do you have areas of significant exposure to currency exchange? Look at your cost base and revenue streams. ■ Stress test. At what exchange rate does business become unviable? Run scenarios on different euro/sterling FX rates to identify where your threshold lies. ■ Check your contracts. Do they allow for currency-linked price adjustments? How might this impact your exposure? ■ Hedging options. What is your appetite for risk? Do you hedge to manage short-term currency risk? If you don't, then start talking to your financial advisor about options. 	<p>Identify your options for managing prolonged period of volatility:</p> <ul style="list-style-type: none"> ■ Explore natural hedging options. Could you move operations in to the UK to service your UK customer base? Do you have UK-based suppliers servicing your UK customers that you could pay in sterling? Could you use UK sources for raw materials to counter-balance price pressure? ■ Look to new markets. Are you over-exposed to the UK market? Do you need to look for new markets to reduce your exposure? ■ Innovate your cost base. Are there innovations that you can make to reduce your cost base? For example, new digital channels to market, product re-engineering, etc.



Supply chain

As negotiations proceed, it will become clearer if and how Brexit will impact the movement of goods, services and people between the UK and Ireland.

Businesses need to consider not only how tariffs and duties might impact their cost base and overall competitiveness, but also consider what capability they may need to put in place to support a customs border and if their current supply chains are optimised in light of potential Brexit outcomes.

Checklist question	DO NOW	PLAN AND BE READY
<p><i>Do you import or export goods and services to or from the UK?</i></p> <p><i>Does your supply chain/production flow across the border?</i></p> <p><i>Do you operate on an all-Ireland basis?</i></p> <p><i>Do you transit goods through the UK?</i></p> <p><i>Do you use the UK as a land-link to the rest of Europe?</i></p>	<p>Understand how duties and border controls could affect your supply chain and overall competitiveness:</p> <ul style="list-style-type: none"> ■ Map goods: Identify your flow of goods in and out of the UK today to understand the scale of your UK trade and the possible challenge points in your supply chains where new costs and processes may be required. ■ Processing costs: How would additional administrative burden impact costs? How would border controls impact lead times? ■ Sensitivity: How would trade barriers impact price and costs? How sensitive are your customers to price? How tight are your margins? Can you absorb some of the cost? How will time-sensitive deliveries be impacted? 	<p>Explore options for optimising your supply network for duties and border controls:</p> <ul style="list-style-type: none"> ■ Supply chain reconfiguration: Could production capacity be moved to avoid customs? Are there alternative sources for raw materials? What alternative transport routes are available for goods currently being transported via the UK? Implement initiatives to improve logistics and increase flexibility (e.g. managed service, re-letting client's 3PL contracts to meet new network requirements) ■ Assess network risk: Assess your customer and supplier base. How is currency volatility impacting their business? Are they looking for or resisting price increases? Are they at risk and what does this mean for you? ■ Plan for borders: Identify what additional capability your business would need to put in place to support customs and start planning now: <ul style="list-style-type: none"> • Do you have in-house trade expertise needed to support cross-border trade? Are you familiar with import/export declarations? If not, then plan now to plug this gap. • Do you have a customs clearance agency authorised to certify and manage consignment across countries? If not, then plan the sourcing process now. • Do you have an alternative route to mainland Europe if there are transit barriers in the UK? <p>Are your systems ready for border controls? How easily can they be reconfigured? How long will this take?</p>



Contracts

The impact on commercial contracts in the short term may be limited, but Irish business should assess existing and new contractual agreements – particularly those running beyond 2019 when negotiations are due to be completed – to mitigate against any potential contract risks.

Checklist question	DO NOW	PLAN AND BE READY
<i>Do you have commercial contracts with UK counterparties or under UK law?</i>	<ul style="list-style-type: none"> ■ Conduct contract audit: Review commercial contracts, particularly those that run after 2019 and assess risk, for example: <ul style="list-style-type: none"> • Do contracts assume the UK is a member of the EU? • Does their ability to meet obligations assume free movement of goods, people, etc.? • Do contracts assume common regulatory regimes? • Do contracts allow for price increases in the event of tariffs? 	<ul style="list-style-type: none"> ■ Mitigate Brexit risk: Identify strategies to mitigate risk on future contracts, such as strengthening terms and conditions. ■ Alternative jurisdiction: Explore options for alternative contract jurisdictions for contracts currently under UK law with non-UK counterparties.



Finance and funding

Post-Brexit uncertainty (along with global volatility) may have implications for FDI decisions, access to capital markets and access to EU funding programmes.

Businesses need to look at their investment plans and sources of finance. Are these still prudent and how will they be funded?

Checklist question	DO NOW	PLAN AND BE READY
<p><i>Do you rely on FDI or EU grants for funding?</i></p> <p><i>Would capital market volatility impact your investment plans?</i></p> <p><i>May additional investment be needed in response to Brexit?</i></p>	<ul style="list-style-type: none"> ■ Review investment plans: Review your investment plans. How are these impacted by Brexit? Do you need to delay or cancel investments while uncertainty prevails? Are you dependent upon UK partnerships for access to current/future EU funding? ■ Test funding sources: Review your current sources of funding. How are these being impacted by Brexit? Is there a risk that funding may be stopped, restricted or costlier? How would volatility in capital markets impact your business? ■ Scope additional funding needs: Are you looking at diversification, restructuring, system changes, etc. in response to Brexit? 	<ul style="list-style-type: none"> ■ Line up budget approval: Scope out potential investment required in response to Brexit. Do you have budgetary approval lined up? Have you sources in place to meet additional capital requirements? ■ New funding partners: If you are dependent upon UK partnerships for access to EU funding then start to explore alternative partnerships with other EU jurisdictions. ■ Access to capital: If there is a risk to your sources of funding, then start to explore alternative sources of capital. ■ Working capital: Assess how Brexit might impact cash flow (e.g. currency volatility, administration overheads, etc.) and potential implications on working capital needs. How are you going to fund them? Are there optimisations that can be made to your business to reduce working capital requirements?



Workforce

Businesses with UK operations, or a dependency on free movement of people in and out of the UK, need to consider how visa restrictions may impact operations. Businesses also need to consider what skills they might need in the future and start putting in place plans to address gaps where they exist.

Businesses also need to manage communications with staff, keep them abreast of changes and reassure them.

Checklist question	DO NOW	PLAN AND BE READY
<p><i>Do you have workforce in the UK?</i></p> <p><i>Is your business model dependent upon flexible allocation of resources across borders?</i></p>	<ul style="list-style-type: none"> ■ Assess impact: Assess the impact of restrictions on the movement of people on your operations and workforce: <ul style="list-style-type: none"> • Do you have staff in the UK that could be impacted by visa restrictions? Engage your suppliers to audit the current state of your contingent workforce. • How would restrictions on allocating resources across borders impact your business model and ability to deliver service? • How would restrictions on immigration and longer lead times on sourcing talent impact operations in the UK? • Should recruitment plans be delayed or changed due to the uncertainty caused by Brexit plans? ■ Communicate with employees: Start to communicate with staff and management. Give reassurance that you are on the front foot with Brexit. 	<ul style="list-style-type: none"> ■ Reduce your exposure: For UK operations, review your long-term workforce planning and assess dependency on non-UK workers. Explore outsourcing opportunities or labour arbitrage. ■ Plan for movement restrictions: If your business depends on flexible allocation of resources across borders, then evaluate alternate options for service delivery. ■ Plan to fill skills gaps: Are you missing skills in areas that may be required post-exit, e.g. customs and trade expertise? Where might there be future over-demand for scarce talent as a result of Brexit? Plan how you are going to fill critical gaps. ■ Opportunistically attract talent: Does the uncertainty caused by Brexit provide an opportunity to attract non-UK nationals to address the skills gaps that you have today? ■ Communicate frequently: Monitor implications for employees as information emerges. Keep staff informed; maintain a two-way flow of communication.



Technology

Any impact on trade, laws or tax may have implications for IT systems requiring additional functionality and data to support business operations post-exit.

Potential restrictions on the flow of data from inside the EU to the UK may have implications for where data is hosted and used.

Checklist question	DO NOW	PLAN AND BE READY
<p><i>Do you transfer personal data between the EU and UK?</i></p> <p><i>Does your business have data centres in the UK?</i></p> <p><i>Are your systems flexible to respond to trade barriers, etc.?</i></p>	<ul style="list-style-type: none"> ■ Audit systems: Conduct a high-level evaluation of your system readiness in light of Brexit scenarios. Are your systems flexible enough to meet changes in border controls, travel restrictions, tax, legal entity, etc.? How significant an investment would you need to reconfigure or upgrade your systems? ■ Assess data risk: Look at where you host and use personal data. What implications would restrictions on transfers of data to and from the UK have on your ability to do business? What does this mean for your data infrastructure? 	<ul style="list-style-type: none"> ■ Refresh investment plans: Refresh your IT investment plans. Are there projects that should be delayed – or even expedited – while the outcome of a UK exit remains unclear? What are the lead times on critical system changes that may be needed? Do you have budgets in place or approved in principle? Are there changes that you can't afford to "wait and see" on? ■ Update your IT Strategy: Organisations with robust, flexible IT systems and infrastructure will, by definition, be quicker and better enabled to respond to Brexit impacts and wider digital disruption. Is now the time to move your business to the cloud, or restructure your IT functions to be more agile?



Regulation

Regulations are unlikely to diverge overnight, existing UK regulation derived from EU legislation will remain applicable post-Brexit. However, the impact on planned or future regulation implementation is less certain.

Divergence in regulation has the potential to create additional complexity for businesses or alter the competitive dynamic with UK businesses.

Checklist question	DO NOW	PLAN AND BE READY
<p><i>Is your business subject to regulation and standards?</i></p>	<ul style="list-style-type: none"> ■ Conduct a quick scan: Regulatory risks are low in the foreseeable future so start by identifying where you might be exposed. Conduct a quick scan of your business to identify where divergence in regulation may have an impact. Focus on planned regulatory changes that have not yet been implemented. Where are the areas that divergence could have a significant impact? 	<ul style="list-style-type: none"> ■ Monitor: Identify information sources/bodies that you will use to understand the impact of negotiations on planned regulation pre-Brexit and any changes in the UK regulatory regime post-Brexit. Assess the operational implications of any divergence, what would divergence mean to your business and is there anything you need to start doing now in response? ■ Authorised representatives: Manufacturers dependent upon UK based authorised representatives to verify compliance to EU standards may want to source alternative representatives or confirm current representatives' plans post-Brexit.



Market

Brexit may have a direct impact on not just the cost and complexity of doing business with the UK, but also on economic growth, consumer sentiment and competitiveness of Irish business, both versus the UK and non-EU competition.

Businesses, particularly those with a significant exposure to the UK market, need to assess the sensitivity of their markets to Brexit and adapt their business model to the changing competitive landscape.

Checklist question	DO NOW	PLAN AND BE READY
<p><i>Do you have significant exposure to the UK market?</i></p> <p><i>Are you at risk of increasing competitive pressure from UK or non-EU businesses as a result of Brexit?</i></p>	<p>■ Stress-test business strategy: Assess the weakness and opportunities in your current business model. Survey your customers and determine the value you bring them, look at what your competitors are doing, assess industry and cross industry trends. Conduct scenario analysis to understand how sensitive your business model and business forecasts are to Brexit (and wider global change). For example:</p> <ul style="list-style-type: none"> • How sensitive is your UK customer base to price changes? • How would a slowdown in economic growth impact your markets? • Are there capacity or capability weaknesses in the UK that may be exposed by Brexit and could play to your advantage? • Is your business exposed to changes in consumer sentiment and behaviours that Brexit might accelerate, e.g. digital channels, "Buy British" campaigns, etc.? • How would changes in regulation, state aid, non-EU competition hinder, or aid, market competitiveness? 	<p>■ Evaluate strategic options and start to act: Identify and evaluate strategic options. Don't wait for an external change to force you to change. Start to adapt your business model today.</p> <p>Options to consider include:</p> <p>■ Market diversification: Now may be the time to explore opportunities to diversify into new markets, whether organically or through acquisition, to protect against uncertainty in current markets – or to take advantage of Brexit impacts on competitors.</p> <p>■ Product innovation: As Brexit adds cost and complexity to doing business with the UK, businesses may want to look at how they can add value to differentiate themselves from lower-cost competitors. Look across your industry's value chain and where value is added for the customer. Could you change your business model to incorporate these activities? Or can the products or services you provide be re-engineered to reduce production costs or deliver more efficiently?</p> <p>■ Strategic cost reduction: While much of the low-hanging fruit may already have been taken out during the downturn years, if cost competitiveness is critical to your business success then now may be the time to look at more fundamental cost reduction options. Examples might include process automation, using digital channels to bypass other routes to market, using data analytics to drive efficiency, restructuring operations to avail of lower-cost countries, outsourcing, etc.</p> <p>■ Customer centricity: While customer experience has become a bit of buzzword, customer expectations are definitely changing – they are more empowered, less loyal, and have easy access to information about your business and your competitors. Customer data analytics and digital channels can enable businesses to become more attuned to their customers' needs and more adept at meeting their expectations.</p>



Operating structures

Brexit is likely to have an impact on many aspects of individual Irish businesses.

Irish businesses need to consider how they structure themselves in Ireland and the UK to ensure they maintain their competitiveness and profitability.

Checklist question	DO NOW	PLAN AND BE READY
<i>Do you have operations in the UK dependent upon free access to the Single Market and EU market infrastructure, or vice versa?</i>	<p>■ Operational assessment: Assess Brexit impact on existing operational footprint and operating structure. Realign operating structure (legal entity, trading entity) in light of Brexit impact. For example:</p> <ul style="list-style-type: none"> • Will possible trade barriers necessitate a review of where various operations are located? • Do you have services in the UK that depend upon access to the Single Market or EU market infrastructure (or vice versa)? Do high proportion of UK to EU exports / EU to UK imports? • Do you have services that depend on transferring data between the UK and Ireland? • Do you have partners in the UK whose service is dependent upon access to the Single Market and/or free movement of data? • Do you have an existing tax-efficient supply chain model? 	<p>■ Evaluate options: Begin evaluating options for re-locating operations/services and preparing transition plans. Finding suitable property and transitioning operations does not happen overnight. Line up approvals and begin taking small steps now.</p> <p>Think creatively: relocation and duplication of services may not be the only option. Don't be afraid to ask if this is an opportunity to operate in a different way. Is there an opportunity to automate services, outsource, etc.?</p> <p>■ Don't forget the home market: While by no means certain, Brexit may lead to even greater demand for scarce commercial property in Ireland. If you have plans to grow headcount in Ireland or relocate to Ireland, then start planning now.</p> <p>■ Assess location planning: Consider if Brexit may require the relocation of talent. Are new UK-based operations or partnerships required?</p>

Who can you talk to about Brexit?

Ibec is here to help Irish business understand Brexit and be ready for its impacts. Monitor the latest developments at Ibec's Brexit Hub: www.ibec.ie/Brexit. You'll find the latest political and economic analysis for Irish businesses and practical supports to help plan for Brexit.

Ibec

Ibec is the group that represents Irish business both domestically and internationally. Together, our 7,500 members employ more than 70% of the private sector workforce in Ireland. Ibec and its sector groups lobby government, policy makers and other key stakeholders nationally and internationally to shape business conditions and drive economic growth.

Further information

For further information on how Brexit will impact your business, please contact Ibec:

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