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Impact of Brexit on Most Exposed Sectors: Firm-level insights

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Overview



- Purpose of Research
- Methodology
- High-Level Findings
- Sector Specific Findings
 - *Example Sectors*
 - *Goods V Services*
 - *Large V Medium V Small Firms*
- Firm Specific Findings
- Policy Implications



Purpose of Research



- Qualitative insight – richness of data of use to DBEI
- Complement existing and forthcoming research
- Initiate practical conversations with firms – and avoid 'survey fatigue'
- Inform policy and link to negotiations
- Medium term focus (e.g. Excluded £ fluctuation)

Methodology



- What type of enterprise?
 - *Most-exposed sectors, firm-level impact*
- What type of Brexit?
 - *'Hard' - UK outside Single Market and Customs Union*
- What changes? 4 Freedoms approach
 - *Free movement of Goods*
 - *Free movement of Services*
 - *Free movement of Capital*
 - *Free movement of People*
 - *'Level playing field' Guarantee*

Methodology



- Pre-research analysis:
 - *Identified 15 most exposed sectors (size, proportional, import exposure)*
 - *Dept. Finance, CSO and ABSEI data sources*
 - *Prepared 20 Impact Assessment Factors*
- 169 Firms across 15 Sectors

Methodology



- 20 Potential Brexit impacts questionnaire:
 - *Qualitative responses*
 - *Grade level of concern*
 - *Detail any mitigating actions taken*
- Timeframe: Q2 – Q3 2017
- Analysis
 - *High-Level*
 - *Sectors - Goods v Services; Enterprise Size*
 - *Firm specific*

Deloitte commissioned to undertake research & analysis

Sectors



Meat	Computer Programming
Fisheries	Computer Services
Dairy	Transport Services
Beverages	Financial and Insurance Services
Chemicals and Pharmaceuticals	Construction, Energy, Water, and Waste Services
Wood, Wood Products, Paper and Printing	Rental and leasing services
Computer, electronic and optical products	Retail / Wholesale
Other manufacturing (incl. Petroleum, Furniture, Textiles, Clothing, Footwear, Leather)	

- 60% of exports and 40% per cent of private sector employment

20 Potential Brexit Impacts



Goods

1. Imposition of trade tariffs
2. Imposition of rules of origin
3. Re-establishment of physical UK border
4. Absence of customs union and other common areas (including fisheries)
5. Unilateral imposition by the UK of new/different product standards, in areas such as health, public safety, quality, and the environment
6. No mutual recognition of specifications or agreed technical specifications between the UK and the Republic of Ireland/EU

Services

7. Restrictions on providing/receiving a service in/from the UK
8. No agreed rights for Irish service recipients (from the UK) and vice-versa
9. Restrictions on establishing a company in the UK

20 Potential Brexit Impacts



Capital

10. Restrictions on investing in, and owning, companies in the UK
11. Restrictions on taking an active part in the management companies in the UK
12. Restrictions on Irish enterprise on real estate investments or purchases, securities investments (e.g. in shares, and bonds), granting of loans and credits, and other financial operations in the UK (e.g. limitations on raising cheaper money in the UK)

Labour

13. Removal / change in reciprocal Ireland/UK entitlement to look for a job, work without needing a work permit, reside for that purpose, stay even after employment has finished, and enjoy equal treatment with nationals in access to employment, working conditions and all other social and tax advantage
14. Inability of people working in some occupations in Ireland to have their professional qualifications recognised in the UK, and vice versa

20 Potential Brexit Impacts



Level playing field

15. No requirement on the UK to meet minimum harmonised public procurement rules
16. Removal of application to UK of existing EU Intellectual Property, or data regulation/protection regime rules
17. Increased, though lawful, anti-competitive behaviour by UK enterprises or indeed by the UK government in the areas of State Aid, anti-trust and cartels, and mergers
18. Removal of application of current EU competition instruments to the UK
19. Dilution or removal of the right for consumers and businesses in Ireland to get damage compensation when they are victims of anti-competitive conduct in the UK
20. Removal of UK from jurisdiction of EU State Aid investigation procedures

High Level Messages



- Fears about changes to free movement of goods generate highest level of concern across sectors
- Variation between sectors in the level of concern Brexit generates – but also varies significantly within sectors
- Firms did not appear to be systematically taking mitigating action
- There is likely a 'Salience' impact

High Level Messages



- Firms were most concerned about:
 - 1. Brexit resulting in new tariffs on trade with the UK*
 - 2. The imposition of a physical border with NI*
 - 3. The end of a shared common area with the UK (customs, fisheries etc.)*
 - 4. Reduced freedom to provide and receive services*
 - 5. An end to existing agreements on standards and specifications*

Concern Levels by Sector



Impact Assessment Factor	Chemical & Pharma	Dairy	Beverages	Fish	Construction / Energy / Water / Waste	Retail / Wholesale	Financial & Insurance Services	Wood / Printing	Other Manufacturing	Computer / Electronics / Optical	Meat	Computer Facilities Mgmt. / Consulting	Transport	Computer Prog.	Rental & Leasing
1 Imposition of trade tariffs	Orange	Red-Orange	Orange	Red-Orange	Orange	Red	Yellow	Orange	Orange	Orange	Red-Orange	Yellow	Orange	Orange	Orange
2 Imposition of rules of origin	Yellow	Orange	Orange	Yellow	Yellow	Red	Yellow	Yellow	Orange	Yellow	Orange	Light Green	Yellow	Light Green	Light Green
3 Re-establishment of physical UK border	Orange	Orange	Orange	Red-Orange	Orange	Red	Light Green	Orange	Orange	Orange	Orange	Light Green	Orange	Light Green	Orange
4 Absence of customs union and other common areas	Orange	Orange	Orange	Orange	Orange	Red	Yellow	Orange	Orange	Orange	Orange	Light Green	Orange	Yellow	Yellow
5 Unilateral imposition by the UK of new/different product standards	Orange	Orange	Orange	Yellow	Yellow	Orange	Orange	Orange	Orange	Orange	Orange	Light Green	Orange	Light Green	Light Green
6 No mutual recognition of specifications or agreed technical specifications	Orange	Orange	Orange	Yellow	Orange	Orange	Yellow	Yellow	Orange	Orange	Orange	Yellow	Orange	Yellow	Yellow
7 Restrictions on providing/receiving a service in/from the UK	Orange	Yellow	Orange	Orange	Yellow	Yellow	Orange	Orange	Orange	Orange	Yellow	Orange	Orange	Orange	Orange
8 No agreed rights for Irish service recipients (from the UK) and vice-versa	Orange	Light Green	Yellow	Yellow	Yellow	Yellow	Orange	Yellow	Orange	Yellow	Yellow	Orange	Orange	Yellow	Yellow
9 Restrictions on establishing a company in the UK,	Orange	Light Green	Light Green	Light Green	Yellow	Light Green	Yellow	Yellow	Light Green	Yellow	Light Green	Yellow	Light Green	Yellow	Light Green
10 Restrictions on investing in, and owning, companies in the UK	Orange	Yellow	Yellow	Yellow	Orange	Light Green	Orange	Yellow	Light Green	Yellow	Yellow	Yellow	Light Green	Yellow	Light Green
11 Restrictions on taking an active part in the management companies in the UK	Orange	Yellow	Yellow	Light Green	Yellow	Light Green	Orange	Yellow	Light Green	Yellow	Yellow	Yellow	Light Green	Yellow	Light Green
12 Restrictions on Irish enterprise on investments	Yellow	Yellow	Yellow	Light Green	Yellow	Light Green	Orange	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
13 Changes to free movement of labour.	Red-Orange	Orange	Orange	Orange	Orange	Orange	Orange	Yellow	Yellow	Yellow	Orange	Orange	Yellow	Yellow	Yellow
14 Inability to recognise professional qualifications	Yellow	Yellow	Light Green	Light Green	Yellow	Light Green	Orange	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
15 No requirement on the UK to meet minimum harmonised public procurement rules	Yellow	Light Green	Light Green	Yellow	Yellow	Light Green	Light Green	Yellow	Light Green	Yellow	Light Green	Light Green	Light Green	Light Green	Light Green
16 Removal of application to UK of existing EU Intellectual Property, or data regulation/protection regime rules	Yellow	Yellow	Yellow	Yellow	Yellow	Light Green	Orange	Light Green	Yellow	Orange	Light Green	Orange	Light Green	Orange	Light Green
17 Increased, though lawful, anti-competitive behaviour in the areas of State Aid, anti-trust and cartels, and mergers	Orange	Orange	Orange	Orange	Orange	Light Green	Yellow	Orange	Orange	Orange	Orange	Orange	Yellow	Light Green	Light Green
18 Removal of application of current EU competition instruments to the UK	Orange	Yellow	Orange	Orange	Orange	Yellow	Yellow	Yellow	Yellow	Yellow	Light Green	Yellow	Light Green	Light Green	Light Green
19 Dilution or removal of the right for consumers and businesses in Ireland to get damage compensation	Yellow	Yellow	Yellow	Yellow	Yellow	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
20 Removal of UK from jurisdiction of EU State Aid investigation procedures	Yellow	Yellow	Yellow	Yellow	Yellow	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green
Weighted Average level of concern (out of a possible score of 60)	41	37	37	36	35	35	34	33	33	33	32	32	31	28	26

Sector Specific Findings



Full 15 sector profiles are an appendix to the report.

Some examples:

- **Chemical and pharmaceuticals**
 - access to talent pool
 - potential administrative costs from divergent regulation and/or product standards
- **Dairy**
 - operate on tight margins,
 - small additional costs would affect their competitiveness

Sector Specific Findings



Full 15 sector profiles are an appendix to the report.

Some examples:

- **Construction, energy, water and waste**
 - implications of a hard border for their supply chains
 - access to equipment, raw materials and particular services
- **Financial services and insurance**
 - ability to own or invest in companies, property or securities across these jurisdictions
 - access to talent pool

Goods v Services Findings



Variance between sectors, and between firms within sectors, is evident

- Lower levels of concern expressed by firms in Services sectors
- Both Goods & Services firms most concerned about the imposition of tariffs

Goods sectors

- Mutual recognition of regulatory standards
- Divergence in technical specifications

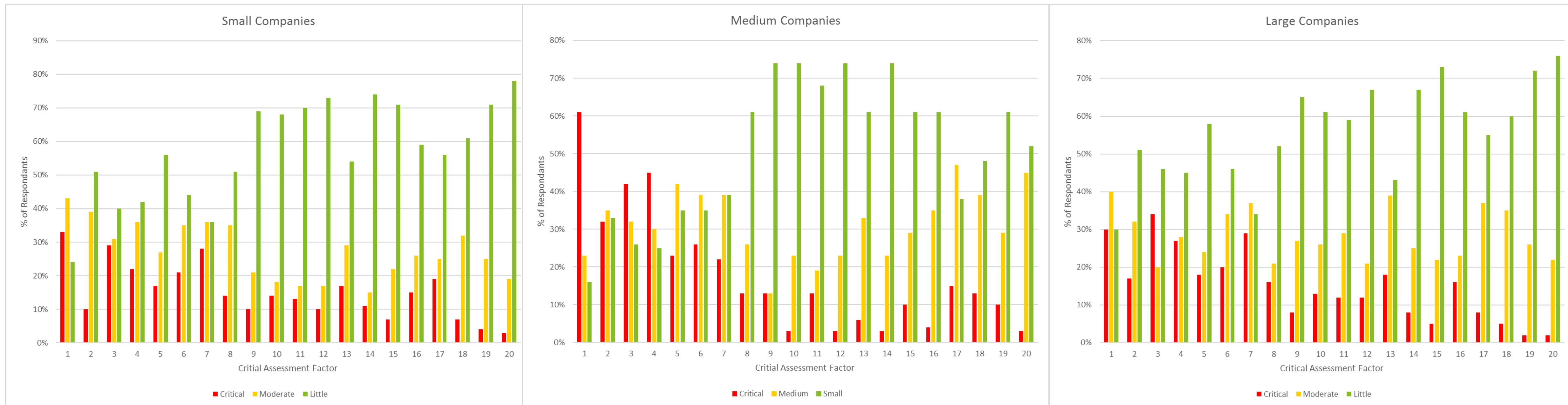
Services sectors

- Ease of movement
- Recognition of qualifications

Enterprise Size Findings



- Areas of concern relatively consistent across firm size
- Medium size firms tend to express highest levels of concern



Firm Specific Findings



“Any delay in transporting products across the border in both directions adds unnecessary time and costs to our business, which customers will have to bear through increased costs.”

Firm in the Pharmaceuticals / Chemicals Sector

“We will look to investigate the possibility of increased warehouse/cross dock capacity to offset the potential risk [of delays]. We may also have to hold additional stock at store level increasing our inventory holding costs.”

Firm in the Retail & Wholesale and Sector

“The financial services industry relies on ready access to finance professionals both for staffing and consulting. In that case, anything that will drive up costs of doing business with London will be bad for Irish financial services companies.”

Firm in the Financial Services Sector

“It is difficult to plan for mitigation at the moment as there is so much uncertainty. Implementing mitigation plans requires investments and resources for a situation that may not arise. At the moment, we are researching options and preparing at this level before we decide to commit resources.”

Firm in the Beverages Sector

Firm Specific Findings



“The border will impact on our ‘next day delivery promise’ made to customers across all channels including online.”

Firm in the Retail & Wholesale Sector

“As a relatively small operator in the UK, we appreciate the protections that a strong anti-trust and competition regime affords to us in the UK. Any diminution of that protection is likely to have a negative impact on us.”

Firm in the Beverages Sector

“[Brexit is of] Little concern for our business although we believe the alignment in standards between the Ireland and the UK is generally of benefit... Anything that could negatively impact the Irish economy is a concern for us.”

Firm in the Rental and Leasing Sector

“Any change in this agreement would limit the possible pool of talent that we can recruit from in the future. UK citizens are the second largest nationality in our workforce after Irish citizens currently.”

Firm in the Pharmaceuticals and Chemicals Sector

“Not 100% sure what this [WTO ‘country of origin’ rules] involves but sounds like more paper work.”

Firm in the Other Manufacturing Sector

Firm Specific Findings



To repeat - variance between firms within sectors is as broad as variance between sectors

- Firm specific
 - *Levels of exposure to Brexit risk*
 - *knowledge*
 - *preparedness*
- Salience
- Richness of data a useful resource for DBEI
- Demonstrates challenge and opportunity of firm-led resilience building

“I would have liked to see a ‘Don't know!’ option on all of the above”

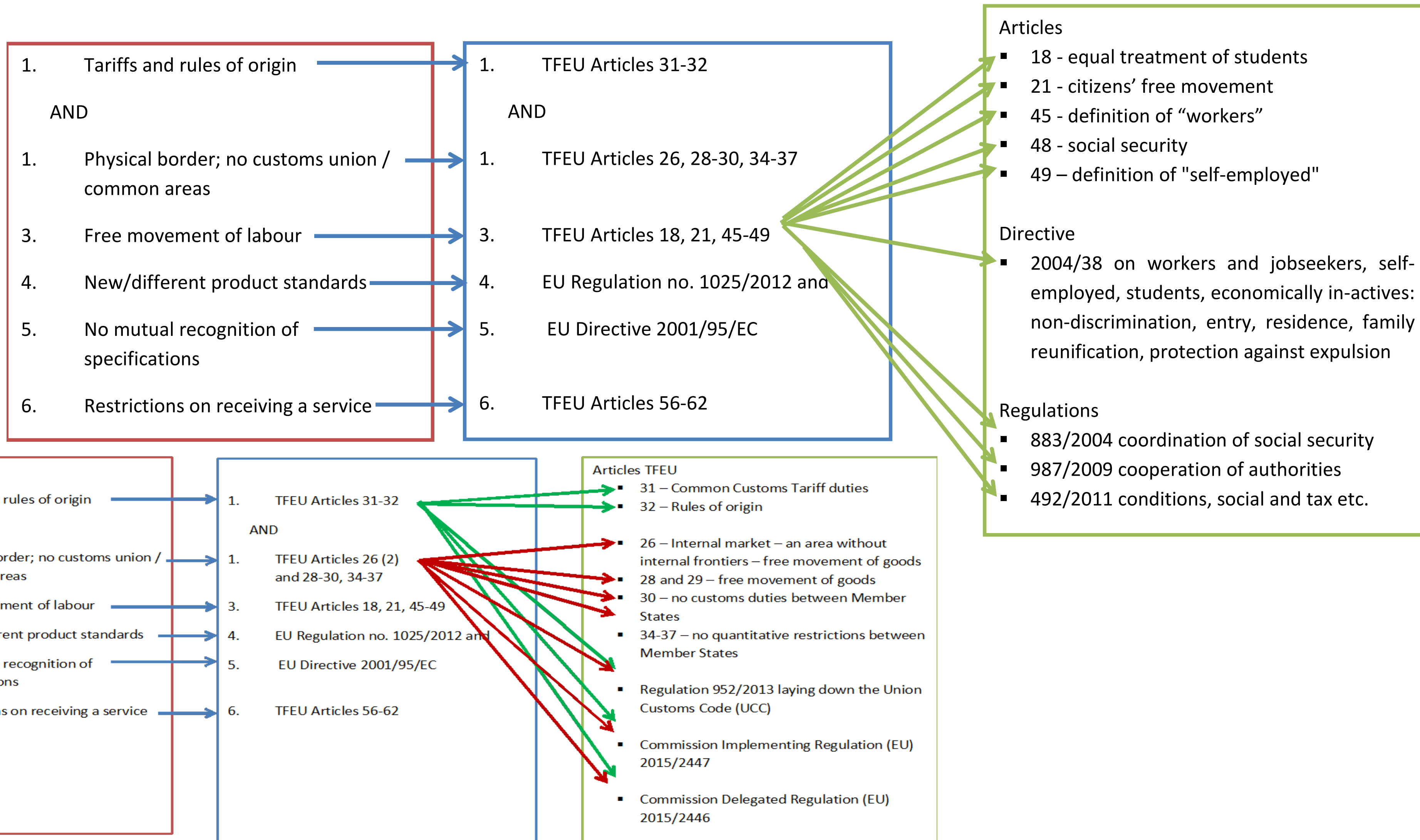
Firm in the Financial Services Sector

The Brexit SME Scorecard is an interactive on-line platform which is available to all Irish companies to self-assess their exposure to Brexit

www.prepareforBrexit.ie

Developed by Enterprise Ireland

Policy Implications: Negotiations - Retail Sector Example



Policy Implications

- Renewed, relentless focus on competitiveness & building firm resilience
- Firm-level intervention more appropriate than sector-by-sector actions (with possible exceptions)
- Firm-led diagnostics – raise awareness of resources (particularly Enterprise Ireland toolkit)

‘Building Stronger Business’

- Helping firms to compete
- Enabling firms to innovate
- Supporting firms to trade
- Negotiating for the best possible outcome

