What is Brexit?

"Brexit" (or British Exit) refers to the outcome of the UK referendum on membership of the European Union in which 52% of voters opted for Britain to leave the EU.

What happens next?

Following the UK's vote to exit the European Union, we are left with a large degree of uncertainty on what will now follow. However, there are a few things we know that will and won't happen in the aftermath of the result.

In the immediate term, we can expect some degree of **currency fluctuation in Sterling and possibly other currencies**, so businesses with exposure to Sterling should consider how they will manage this. There may also be some **market volatility** with knock-on **consequences for investments and pensions** and it is unclear how long this period of uncertainty will last.

However, it is important to highlight that there should be no immediate impact as negotiations for a UK exit from the European Union are likely to take a considerable amount of time. For example, pending the outcome of any negotiations there will be **no introduction of tariffs** and there will be **no immediate introduction of a hard border** between the Republic of Ireland and Northern Ireland. Free movement of people should also not be impacted in the immediate aftermath.

The UK is Ireland's largest single trading partner in Europe and ranks second to the USA in terms of global export markets. However, the share of Irish exports (goods and services) to the UK has fallen from 55% to 17% over the last 40 years. Similarly, the dependence on the UK as a source of goods imports has fallen dramatically, with the share decreasing from 50% to 26% since 1975.1 The EU bloc (excluding the UK) is the largest trading partner of the Ireland, and accounts for more than twice the volume of Irish merchandise exports to the USA. Irish exporters should look to building on already strong links with US and EU markets in the months and years to come to account for any disruption to trade links with the United Kingdom.

What will the UK's relationship with the EU look like in the future?

The hope of those advocating the Leave vote in the UK referendum would be that the UK could go on to form a relationship with the EU similar to the relationship already in place between other countries outside the EU, including Switzerland, Norway, Iceland and Liechtenstein. These countries have formed a **European Free Trade Association ('EFTA')** for the promotion of free trade and economic integration. Norway, Iceland and Liechtenstein have a joint European Economic Area ('EEA') Agreement with the EU while Switzerland has signed a set of bilateral agreements with the

EU. However, this path is far from certain. Even if the UK were to remain a full part of the single market, it would have to accept EU regulations without any influence in setting them. It would still have to pay for access to that market, as does Norway, and could not deregulate any more that it can today.

Additionally, while the UK, would have more freedom and control over making trade agreements, it is likely that it would struggle to negotiate the same access for goods and services as it currently has under existing EU free trade agreements.

A report from Global Counsel outlines five models that may define the future relationship with the EU should the UK choose to leave.

Norwegian Style EEA Agreement	The UK joins the European Economic Area and maintains full access to the single market, but must adopt EU standards and regulations with little influence over these. The UK still makes a substantial contribution to the EU budget and is unable to impose immigration restrictions.
Turkish-style Customs Union	Internal tariff barriers are avoided, with the UK adopting many EU product market regulations. The UK is required to implement EU external tariffs, without influence or guaranteed access to third markets.
FTA-based Approach	The UK is free to agree Foreign Trade Agreements independently and the UK's relationship with the EU will be governed by an FTA. Tariff barriers are unlikely, but the UK will need to agree common standards and regulations.
Swiss-style Bilateral Accords	The UK and the EU agree a set of bilateral accords which govern UK access to the single market in specific sectors. Concern in Brussels about cherry picking may limit the sectors. The UK becomes a follower of regulation in the sectors covered, but negotiates FTAs separately.
MFN-based Approach	No need to agree common standards and regulations, but this comes at an expense of facing the EU's common external tariff which damages UK trade with the EU in goods and services.

The UK's vote to leave the EU now requires the application of Article 50 of the Lisbon Treaty. This will involve the UK notifying the European Council of its intention to leave the Union, following parliamentary approval for such an act. Article 50, when applied, provides that the EU will negotiate a new agreement with the withdrawing country over two years.

While the two year period can be extended by unanimous agreement, Article 50 also specifies that, when agreeing a new deal the EU acts without the involvement of the country that is leaving, meaning Britain would have little or no say in the relationship it is offered by the remaining 27 member states.

It will be the role of Government to ensure that Ireland's key interests are protected as part of this negotiation process.

Main Impact of Brexit on Ireland

At this point nobody is certain what the long term impact of Brexit on Ireland will be. If the UK was to be allowed to replicate the Norwegian or Swiss arrangements with the EU, the changes for the Republic would be minimal.

Nevertheless, there are several risks facing Ireland following the UK vote to leave the EU which may or may not be mitigated, depending on Britain's future relationship with the EU.

- Firstly, Ireland's close **trade and economic links** with the UK will be changed. In the future, those trading with the UK may face increased administrative and regulatory costs and possibly tariffs, however the exact impact will not be known until after a new deal with the EU has been agreed with Britain.
- Brexit also poses **major problems for large retailers** and other companies that treat Ireland and the UK as one market for goods distribution, sales, accounts and business administration.
- Brexit will bring significant challenges for the Irish **agri-sector** in particular, as the UK takes around 35% of Ireland's food exports.
- The **weakening of the sterling** as a result of Brexit negatively impacts our competitiveness vis-à-vis the UK.
- Ireland imports 89% of its oil products and 93% of its gas from the UK. The **energy networks themselves are also closely linked**. Following the UK's EU exit, our energy security may be affected.
- Crucially, Brexit gives rise to concern regarding the **border with Northern Ireland.** Depending on the extent to which Brexit impacts the movement of goods, services and people between the UK and EU, the border may see a reinstatement of customs posts, passport controls etc.
- Lastly, Brexit forces Government to rethink how it positions itself within the union. Both Ireland and the UK have found common cause on free trade, taxation, the internal market, financial services and justice and home affairs - issues on which the two governments are frequently staunch allies. The British departure sees Ireland **losing a valuable ally in the EU**, which could result in more pressure being put on Ireland to raise its corporate tax rate, as one example.

Are there any opportunities for Ireland?

One area in which Ireland could benefit from Brexit is foreign direct investment, as it would be the only English speaking country left in the EU that could act as a gateway to the Single European Market.

The UK will become much less attractive to foreign direct investment that require access to EU markets. Ireland could attract some firms, most notably in the financial services sector, that are located in the UK but need to maintain a presence in the EU or access to EU markets.

Some of the EU's most important agencies are also located in London. Following Brexit there may be an opportunity for Ireland to attract some of these organisations to relocate here.

What should you do now?

Businesses should begin a process of assessing the impact of Britain leaving the EU on their operations and develop a contingency framework to make any necessary adjustments over the coming years as the terms of a negotiated exit become clearer or to assist us in raising matters of which negotiating teams should be made aware or seek alternative solutions. Issues to consider may include:

1. Update generic contingency plans

2. Analysis of business models and differences arising if trading directly, using branch structure, commissionaire structure or UK subsidiary

3. Identify currency exposures

4. Analysis of business lines to identify potentially exposed offerings e.g.
   a. products & services which are typically liable to customs for non-EU trading
   b. products and services where regulatory environment may change
   c. impacts of changes in employment laws
   d. identify supply chain issues such as transport routes used for sales and purchases

Contact Details:

Please contact Sarah Thatt-Foley in our policy team on sfoley@corkchamber.ie or 021 453 0139 to discuss areas of particular concern where we may be able to feed suggestions / commentary to the Government negotiators.