Issue 32 | 28th August 2018

Brexit watch

Monthly briefing on Brexit developments

In this issue

- Publication of the first batch of the UK's 'no-deal' technical notices
- The importance of cross channel travel to the Republic of Ireland's economy
- Increased trade uncertainty prompting firms to take action

After a period of relative calm over the summer recess, the debate has been re-ignited by the publication of the first batch of UK Government technical notices offering guidance on a 'no-deal' Brexit. The technical notices outline the various implications of a no-deal Brexit on certain sectors within the UK economy. While these notices provide a road map in the potential event of a no-deal scenario little clarity remains on where ROI, the UK and EU are in terms of a no-deal scenario.

The first 25 technical notices cover a wide range of aspects of a no-deal across multiple sectors. Early reaction has focussed on the implications for UK consumer, such as the potential for increased credit card charges or possible impacts on pension payments to UK citizens in the EU.

There was little to surprise the business community in the notices though it will take time to fully digest the extensive material. Of particular interest on the island of Ireland was the suggestion that firms trading across the island should perhaps look to the Irish government for guidance, though there is a commitment to further work to deal with one of the most complex aspects of Brexit.

The focus on a no-deal scenario has increased calls for a second referendum which a Labour spokesperson stated they 'may' back if Parliament votes against the Prime Minister's plans. Both Leo Varadkar and Simon Coveney have outlined the possibility for an Article 50 extension which the Taoiseach stated is preferable to no-deal. The Tánaiste outlined that Ireland would back the UK for a time extension if it allowed all parties to agree a deal.

The technical notices give the public, and business, a glimpse into the complexities of a no-deal Brexit that hitherto have been rather abstract.

As the detail is digested, tracking the reaction in the UK and across Europe will be extremely important. The hope of many is that the notices, and reaction to them, will inject new energy into the push for an agreement that renders much of their contents irrelevant.

Seán Golden

Economist | EY-DKM
Economic Advisory

Sarah McDowell

Economist | EY-DKM
Economic Advisory

1 Political Developments

United Kingdom

No-deal Brexit could hit consumer banking

The paper which focuses on financial services and banking outlines that UK banks are likely to lose access to EU payments systems. Arising from this, customers could possibly face increased costs and slower processing times for Euro transactions. The cost of card payments is likely to increase for UK customers. Depreciation of sterling due to a no-deal scenario would compound the effect on costs of British citizens travelling abroad. UK citizens living in the EU could possibly lose access to lending, savings and insurance services.

Tariff introduction

The technical notices also make clear that the United Kingdom, in the event of a no-deal, expect the EU to impose tariffs on UK goods. The introduction of tariffs and restrictions on the free movement of goods is expected in a no-deal outcome.

Health and medicine disruption

Pharmaceutical companies and drug makers have been asked by the British Government to ensure a stockpile of an additional six weeks of products to cope with potential disruption to the pharma supply chain as a result of no-deal. As a result of a no-deal scenario, the UK would have its own processes to regulate medicine and medical devices. To mitigate the complexity of medicine regulation, existing processes would be followed where possible.

Regulatory information about e-cigarettes, medical devices and medicines would be submitted to the UK Medicines and Healthcare products Regulatory Agency (MHRA).

European Union

EU will not abandon its founding principles

The EU's chief negotiator for Brexit, Michel Barnier, outlined that it is possible for the EU and UK to reach common ground but enforced the point that the relationship had to respect the foundations of the European project and the single market. As fears of a no-deal mount, Barnier warned the UK against blaming the EU for such a scenario being reached and outlined while the EU is working to avoid a no-deal, people must prepare for such an outcome.

Ireland (NI & ROI)

Lower prioritisation of peace

Earlier this month it was revealed that the British Government asked the Irish Government to ease the emphasis on peace in Northern Ireland in favour of alternative issues. Protecting peace and the Good Friday Agreement have been a high priority for both the EU and ROI with this priority unlikely to be pared back. The peace process does provide a unique set of circumstances that allow discussion of possible trade and economic outcomes that may not otherwise be considered.

Fianna Fáil accuse Sinn Féin and DUP of 'abdication of responsibility'

Fianna Fáil's spokesperson on Brexit, Lisa Chambers, outlined both the DUP and Sinn Féin's conduct in relation to Brexit as a 'disgrace'. The comments come off the back of the her visit to the Parnell Summer School where the theme of the event was '21st Century Democracy: Opportunities and Threats'. Currently the only representatives of Northern Ireland in Westminster are the DUP, who are pro-Brexit, and Sinn Féin's abstentionist policy allows the DUP to be the sole voice. It is important to note that 56 per cent of NI citizens that voted in the Brexit referendum voted to remain.

Fears mount over the single electricity market

Access to the European Internal Energy Market is vital for the UK's energy system. As NI is highly integrated with another EU country (ROI) by way of the Single Energy Market (SEM) consideration must be given to this area. Political emphasis has turned to 'keeping the lights on' after Brexit with the ROI Minister for Foreign Affairs advising that conversations on the electricity market should be kept in context.

NI companies urged to contact ROI Government

Dominic Raab, Britain's Brexit Minister, stated that businesses trading across the border should seek advice from the Irish Government about the preparations they should make. In the event of no-deal, the Irish Government would have to speak to all member states and the European Union to come to an arrangement with companies that trade across the border. Raab advised that the UK will seek a special agreement for cross-border trade in the event of no-deal.

2 Economic Developments

Cross channel travel

Tourism is an extremely important sector to the Republic of Ireland, accounting for €5.3 billion worth of income in 2017 (4.2 per cent growth on 2016 figures). The impact of tourism is not only monetary but also from a cultural exchange perspective. An estimated 70 million people globally claim Irish ancestry and around 6 million people in the UK have an Irish grandparent. Clearly, it is essential that barriers to tourism remain low post-Brexit.

Tourism between ROI and Britain

Over 38.1 per cent of tourist visits in 2017 came from British tourists according to Fáilte Ireland. British tourists account for the largest share of tourists.

Table 1: Tourist Visits to ROI (000's) and Spend per Tourist (€)

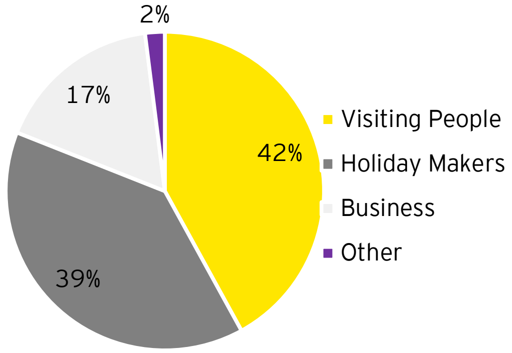
	2013	2014	2015	2016	2017
Britain (000's)	2,870	3,007	3,346	3,632	3,445
Spend per tourist(€)	310	308	304	306	304
Europe (000's)	2,346	2,490	2,880	3,102	3,256
Spend per tourist(€)	524	523	540	534	541
N. America (000's)	1,039	1,146	1,294	1,477	1,715
Spend per tourist(€)	798	821	927	905	890
Rest of World (000's)	431	462	516	531	607
Spend per tourist(€)	853	927	955	1,004	970

Source: Fáilte Ireland

British tourists account for 21.3 per cent of overall tourist expenditure. Expenditure per British tourist has declined 2 per cent in recent years. According to Fáilte Ireland, British tourists spend less on bed and board but more on food and drink than any other group. 51 per cent of British tourists stayed with relatives in 2017. 2016 (fig 1) saw a large portion of friends and family visitors from Britain.

Fig 1 displays that the majority of British tourists are made up of people visiting friends and family as well as holiday makers. Given the UK's close proximity and historical ties it is possible these tourists make more return visits than any other segment and thus spend less on gifts and attractions. The analysis in fig 1 excludes visitors that visit ROI for just 1 day.

Fig 1: British Tourist Profile (2016)



Source: Fáilte Ireland (Excludes 1 day visitors)

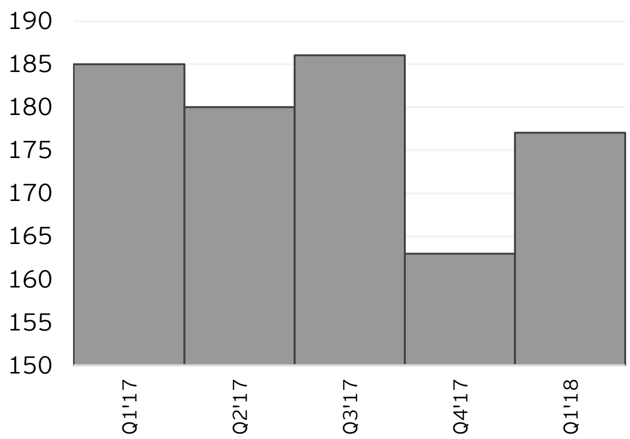
Figure 2 outlines the number of business trips per quarter made by residents of Britain to ROI, which has averaged approximately 178,000 per quarter since Q1 2017.

It is important to foster the cultural exchange that comes with tourism between ROI and the UK as well as protecting the monetary benefit. An important revenue stream could be impacted if travel cost and complexity were to increase.

Brexit barriers to travel

There are a number of potential travel barriers post-Brexit. The requirement for British visitors to the EU to apply for a visa is one of the most impactful. Currency fluctuations are difficult to predict but can decrease the purchasing power of travellers abroad, an extra visa expense could act as a disincentive to travel. Visa requirements are subject to Brexit negotiations and may increase costs and red tape for British holiday makers.

Fig 2: Business Trips Per Quarter (000's)



Source: CSO

3 Business Developments

Mounting anxieties

As we edge closer to the March deadline, the lack of clarity on a final outcome has inevitably led to the prospect of no-deal becoming more prominent in the business psyche.

This has led to more client queries about Brexit strategies and more businesses putting plans in place to weather the uncertainty.

Confidence: a volatile measure, but telling nonetheless

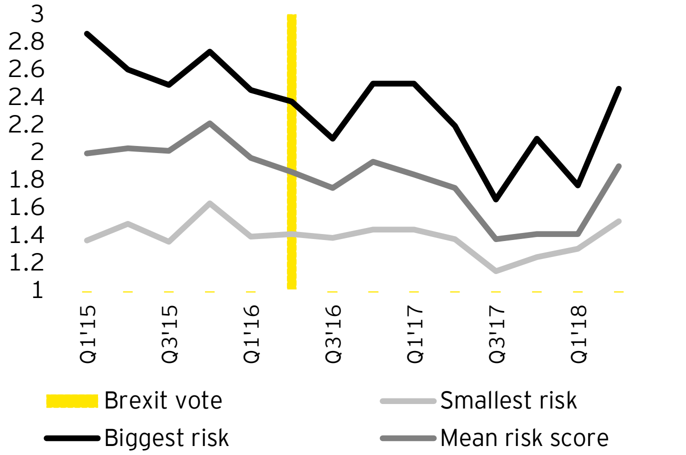
Confidence measures, particularly self-reported ones, are volatile and can cause small shocks to the economy or influence political reaction. Economic impacts have material consequences for businesses, emphasising the need to scenario plan to counteract volatility.

This month's release of the Q2 2018 InterTradeIreland All-island Business Monitor depicts rising anxieties. Businesses are asked to what extent selected concerns are an issue for them (on a scale of 1 to 5, with increasing severity). Highest and lowest concerns change each quarter depending on the reply from businesses. Figure 3 shows a 35 per cent increase in mean scores since Q1. The rising cost of other overheads has represented the biggest perceived risk over the last ten quarters. The impact of Brexit was in fact the smallest reported risk in Q2 2018 following access to finance as the smallest risk in Q1 2018 and Q4 2017, showing that businesses face many diverse (but interconnected) challenges.

Honing in on Brexit, 84 per cent of respondents were neutral or unsure of what effect it had had on their business. This was true on both sides of the border, with larger businesses more likely to have been negatively affected by Brexit. These differences can, in part, be attributed to concerns about the viability of supply chains post-Brexit: only 50 per cent of businesses with 50+ employees feel that their current supply chains will be unaffected, whereas 72 per cent of business with fewer than 10 employees were confident of this.

The increase in concern, if not resulting in material consequences just yet, has not gone unnoticed by businesses themselves. While only 4 per cent of the Island's firms had a plan in place for Brexit in Q1 2018, this quarter, 20 per cent have, or plan to have, a plan in place by March.

Fig 3: To what extent are selected risks an issue for your business currently? Smallest, biggest and average scores.



Source: InterTradeIreland All-island Business Monitor, Q2 2018

How likely is no-deal?

'No-deal' is becoming increasingly likely. However, even if an agreement is reached by March 2019, it could still contain little to guide businesses. The uncertainty is likely to be prolonged by a commitment to ratify terms during the transition period as the terms of the deal are translated into policies and legislation.

However, hope of amicable terms for the UK should not be lost; according to the Economist Intelligence Unit, a majority 17 of the EU27 have adopted a 'soft' stance on the UK's core Brexit negotiating points, including Spain and Denmark.

A global perspective

Providing a global perspective on an often insular looking issue is the Oxford Economics Global Risk Survey. This paints a similar picture: a significant increase in concern in Q2 of 2018.

The emerging global trade war is the biggest downside issue. 93 per cent of respondents viewed it as significant, versus 32 per cent for the break-up of the EU. This is unsurprising –the IMF recently warned that protectionist measures could dent global growth by 0.5 per cent by 2020 and also negatively impact stock markets. This is a material effect and shows that Brexit is not the only factor which should motivate businesses to implement sound logistics and strategy planning. Indeed Maurice Obstfeld, IMF chief economist, has called trade tensions 'the greatest near-term threat to global growth.'

EY | Assurance | Tax | Transactions | Advisory

www.ey.com/ie/economicsforbusiness

@EY_Ireland

Follow us

Contact us

Professor Neil Gibson
Chief Economist | EY-DKM Economic Advisory
neil.gibson1@uk.ey.com
+44 28 9044 1700

Seán Golden
Economist | EY-DKM Economic Advisory
sean.golden@ie.ey.com
+ 353 1 221 1567

Sarah McDowell
Economist | EY-DKM Economic Advisory
sarah.mcdowell@uk.ey.com
+44 28 9044 1930