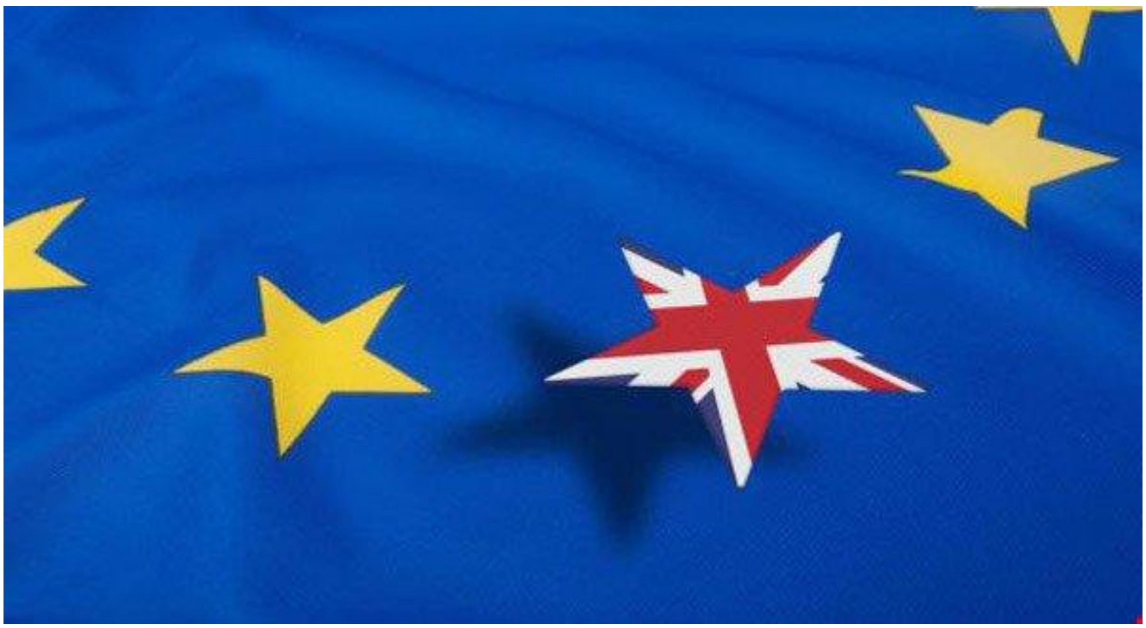
Prolonged uncertainty lies ahead for exporters after UK votes to leave EU

Published 25/06/16

Simon McKeever



On June 23, the UK electorate made a decision to leave the European Union. This is not to be confused with them having left.

We don't know yet what the end result will be, the UK will need to both negotiate their exit from the EU and re-negotiate their future trade relationship with it.

It is too early to surmise what this treaty will look like, they may possibly be able to negotiate a deal whereby they can trade tariff-free, possibly including goods and services.

There could be the free movement of people, there may or may not be border controls but there would be a price for this — both financial and in terms of abiding by the rules, and as we have just seen this price is too expensive.

Both Scotland and Northern Ireland voted in favour of remaining part of the EU and it will remain to be seen how the UK government will deal with the fact that these countries are being taken out of the EU effectively against their will.

The possible re-introduction of a border between the Republic and Northern Ireland would be devastating to the 30,000 commuters per day that cross the border, not to mention the potential effects on cross-border trade, and the effect on growth from being cut-off from access to EU structural funds.

The Irish Exporters Association (IEA) campaigned hard for a Remain outcome. I am not going to downplay the serious implications this decision could have for Ireland.

The UK is our single biggest trading partner and this is not the result that we had been hoping for but, with such a high voter turnout, we do respect the sovereign rights of a nation to make a democratic decision on its future.

There is no fixed timeframe for the negotiations on a future trade relationship between the EU and the UK. Until such time as the terms around this agreement are finalised, Irish business will face a prolonged period of uncertainty.

Ireland benefits from having one of the world's most open economies. According to the World Bank, 113.7% of our GDP derived from exports of goods and services in 2014. Ireland has proven itself to be an adaptable nation with a strong open economy.

Now is the time to take stock of the situation at hand and strategically put a plan in place to weather this storm.

We will continue to have a strong bilateral trade relationship with the UK, albeit with potentially more costs and complications.

The most immediate concern for Irish business will be the fluctuation of sterling and its effect on Irish exporters' cost competitiveness.

Overnight on Thursday, sterling had fallen by 10% against the euro and with the prospect of the UK's AAA sovereign debt being downgraded, coupled with the potential of the UK entering recession during the second half of the year, we can foresee a further decline in the currency.

My advice to exporters dealing in trade with the UK is to talk to your local banks or financial service providers about viable opportunities to hedge your currency risk.

The long-term effects of this seismic decision are yet to reveal themselves.

A lot will depend on the exit that the UK negotiates with the EU, whether this will take the full two years allowed for under the Treaty on European Union or whether, as some exit campaigners would have it, the process begins now and the exit happens earlier.

There is also the negotiation of a potential new trade agreement between the UK and Europe and all that this would entail.

It is crucial that Ireland carves out a special status within any EU-UK trade deal with regard to our relationship with the UK given the close bi-lateral relationship between the two countries. It would also be important for the UK to have this special status.

In the long-term, possible risks that we are facing include the increased cost of doing business in Ireland from tariffs and customs, to increased administration and delays if borders are introduced.

There's a long way to go to the final dénouement of this debacle. Underlying the early call today from four of the five EU presidents for the UK to begin the exit process, sits the message that the EU will most likely take a hard-line on any future trade negotiations with the UK, making the ratification of such a deal by Westminster unpalatable.

Is it possible that there may just have to be a second referendum in the UK at some point over the next few years.

IEA president Paschal McCarthy has reiterated that the organisation will continue to support Irish exporters through this transitional period and will continue to work with the Irish Government to support business in Ireland.

We will continue to lobby government on a regional, national and international level on the issues that affect Irish exporters.

The decision by the UK to leave the EU highlights more than ever the need to support Irish exporters in the diversification of their export markets so that an over-reliance on any particular single market does not have the potential to put our economy under a similar threat in the future.