

## 'Where is it going to be better to set up business? Here or north of the border?'

Brexit, China, the global economy - all big worries for Irish exporters. But another big problem is at home - and it's our rising costs, Simon McKeever tells Colm Kelpie

Colm Kelpie  
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*Simon McKeever*

Plenty of issues to cause exporters concern these days. Markets are volatile, the global economy is becoming rocky thanks in part to the slowdown in China, and, closer to home, the prospect of a British vote on whether to pull out of the European Union weighs on investors and the strength of sterling.

Simon McKeever, the head of the Irish Exporters Association (IEA), points to four other issues of importance - the so-called war for talent, the need to diversify market risk, entrepreneurship and cost competitiveness.

On the domestic front, the last issue seems to be causing him particular concern. The rising cost of housing, insurance and banking are all problems he says his members are grappling with, as well as an inability to recruit the right workers with the right set of skills.

He's not alone in his concerns. From Dublin Chamber of Commerce to Ibec and the Small Firms Association, businesses are increasingly flagging the fact that while our recovery is well under way, Ireland as a place in which to do business, they claim, is becoming less attractive, particularly with a much more competitive environment on our doorstep.

As far back as last summer, Dublin Chamber was warning that Ireland was at risk of losing growing numbers of startups to the UK where the tax regime for entrepreneurs is more attractive.

It claimed to have noted an increase in the number of businesses seeking to relocate away from Ireland to Britain, and warned the UK has achieved a number of competitive advantages within the last five years that pose a threat.

McKeever says he isn't seeing his members getting up and moving across the border just yet, but he adds that the question is being posed.

"In a few years time, where is it going to be better to set up a business, here or north of the border, particularly when you add in the prospect of a lower rate of corporation tax in the North? I think we as a nation needs to wake up. We need to realise that.

"I think if there is 12.5pc [rate] in the UK, and that's on this island, and the United Kingdom is still in the EU, I think that's a competitive threat of a whole different colour for us, and I'm not quite sure we're quite awake to that."

He says businesses look to the UK and see the tax differentials between the two jurisdictions, particularly around setting up a business and then selling it on.

The outgoing government has openly admitted the competitive disadvantages for businesses, and has promised to address the issue if re-elected. Other parties and politicians have made similar promises.

McKeever acknowledges this, but argues that the pace to date has been much too slow.

He points to the Home to Work campaign, established to encourage emigrants who have left at the height of the recession or even before, to return to Ireland.

But would they really want to, asks McKeever.

"It goes back to can they find somewhere to live, given the cost of living, and the taxation rates are too high," he says.

"And it is a global war for talent. They might come back from Australia because the economy is cooling off there and it's a commodity economy; they might come back from Canada, but will they come back from the UK, and Germany and France and the States? Probably not."

And yet, the campaign's success would go some way to helping IEA members with one of the most pressing issues - finding talent. "I don't think it's been happening at a pace quick enough and a lot of our members would be concerned about this," he says.

The competitive edge enjoyed by the UK may be eroded, however, if the British vote to withdraw from the European Union in a ballot that could come as early as June.

A poll released last week suggested that more Britons favour leaving the EU than staying in, although most polls have pointed to a narrow win for Prime Minister David Cameron.

The IEA held a briefing on the implications of a so-called Brexit in June of last year, but McKeever thinks the threat has increased since then. A conference this week heard that 45pc of exports from Irish exporting firms go to the UK.

Despite the potentially damaging effect on our economy, and, indeed, that of Northern Ireland's, McKeever acknowledges we as a country can do little, if anything, to help sway the outcome.

"There are over 40,000 directors of UK companies and there are a couple of 100,000 British people living here," he says. "We have friends and relatives there, but what are you going to do? Organise a mass campaign to try and mobilise that, that hasn't happened. I think we have very little say in what's going on."

The impending referendum is casting a cloud over sterling, which this week ticked up to 78p to €1.

A weakening pound is bad news for Irish exporters as a gain in the value of the euro against the UK currency cuts margins for Irish exporters selling there.

Specialist bank Investec said this week that the current bout of sterling weakness is a "slight over-reaction". McKeever believes Irish businesses have the capacity to deal with it, as long as the UK currency doesn't weaken too much.

"The Irish SME is very elastic to the move on the exchange rate. Do I think it's going to go way back up to 90p? No I don't. Could it go back up towards 78/80? It might. If it was to get above 80 I would start getting worried for our exporters, but perhaps they should be talking to one of their financial service providers about hedging. We as a nation do not hedge an awful lot on our currency risk."

And he says the 'Brexit' debate highlights the need for exporting companies to diversify from their reliance on the UK market. He points out that roughly 80pc of Irish exports are going to the EU, US and UK, with the latter a particularly important market.

"When you combine services and goods exports, the UK is the number one market," he says. "But it's probably not a particularly great thing if there was anything to happen, in any of those markets. It's our firm view that we need to do more to export into China and the BRICS, and into Vietnam and into Africa in particular. I see that as quite a developing market. About 2.5pc of our exports go to China, so for Ireland the food and drink sector is very important into China.

"We need more resources on the ground. We need more people from Enterprise Ireland and our embassy network over there. They don't necessarily have to be high cost public servants that go over, more the budget needs to go into hiring people locally." Minister Charlie Flanagan seems to agree. Outlining the Government's new Economic Diplomacy Strategy last month, the minister promised a pilot programme of locally-hired commercial attachés to help foster more opportunities for Irish businesses.

McKeever is full of praise for Ireland's diplomatic corps, and stresses the IEA is able to easily tap into the state's ambassadorial network to lobby on behalf of its members.

"When the ambassadors come back to Ireland, we host a round table for them to meet some of the businesses that are interested. So we've got to know the ambassadors over time. We find the ambassadors want to help, that they will do things like investigating potential contacts, and going on visits with companies. Nobody opens a door like an ambassador does."

Last year was a good one for the IEA. Membership increased by 12pc and the National Export Hub and National Export Campaign were launched with over 2,100 attendees gathering at eight regional showcases.

Consular services handling has quadrupled since 2011. Africa is the fastest-growing market with visa applications to Ghana, Kenya and Cameroon all on the rise. The top five countries for visa applications were China, India, Russia, Nigeria and Saudi Arabia.

Irish exports into China, McKeever says, will continue to grow, even as the world's second biggest economy records a slowdown.

"The problem is the countries that we export to, which exports to them [China], and we're part of the supply chain to those countries. That worries me a little bit," he says.

"Germany is a big exporter in there, the United States is a big exporter in there, Britain exports a bit in there as well. Industrial production in all three of those countries has dropped. It's the indirect knock-on effect that might affect us."

So with renewed international volatility risking the global economy and a recovering Ireland facing competition threats from our nearest neighbour, what does McKeever believe to be the best make-up of the next government?

"You're trying to drag me into it," he quips, before diplomatically adding: "I think it's very important to have a pro-business element within the next government. It will be very interesting to see the outcome."

'I think if there is 12.5pc [rate] in the UK, and that's on this island, and the United Kingdom is still in the EU, I think that's a competitive threat of a whole different colour for us, and I'm not quite sure we're quite awake to that,' says Simon McKeever regarding corporation tax in Northern Ireland

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