

Brexit would be a party pooper

If the UK leaves the EU, many Irish SMEs would have to reconsider their strategies

Sandra O'Connell Published: 13 March 2016



Fleetwood says the possibility of Brexit raises a worrying uncertainty for the future of his firm **ADAM FLEETWOOD's** company makes clothes for fun. He and two friends, Ian Murphy and Jonathan Hughes, were looking for unusual garb to wear to a stag party and hit upon the idea of a tracksuit that looks like a tuxedo. The traxedo was born. "We got a designer friend to help us make them and got an amazing response," said Fleetwood.

He patented the design and secured a manufacturer in China. The three went into business selling their traxedos for €50, plus vital accessories such as a 1980s headband with mullet attached.

"They're a novelty item — people wear them for parties and other group events," said Fleetwood. "We get loads of pictures of people doing the 12 Pubs of Christmas in them."

The company has sold more than 15,000 traxedos but there's a threat that could end the fun. "We manufacture in China and ship into the UK, where we have a warehouse in Kendal, Cumbria," he said. "It was the easiest thing to do because so many of our retail sales are in the UK."

Once stock arrives in the UK, the company pays duty on the goods. Fleetwood can then export to anywhere in the EU. “We don’t have to pay duty again,” he said. “If the UK leaves the EU, however, we might have to pay duty if we ship product from Kendal to somewhere else in Europe. We don’t yet know how it would work. When you’re in business, an unknown like that is a worry.”

According to Colin Feely, corporate audit partner with business adviser Grant Thornton, Brexit has “been bubbling away in the background”. It is now centre stage.

“I don’t think any Irish SMEs would like to see it go through,” said Feely. “Most Irish businesses either trade with the UK, or aspire to doing so. And we’re the only country in the EU that shares a land border with Britain.”

The London mayor Boris Johnson’s siding with the “leave” lobby has intensified fears. “And the other big risk is that, if a powerful member like the UK leaves, others might follow,” said Feely.

An Economic and Social Research Institute (ESRI) report in November suggested Brexit could reduce bilateral trade flows between Ireland and the UK by 20% or more — an impact that would vary significantly across sectors and products. Agriculture, food and beverages and basic metals would be affected most severely.

Brexit also opens up the possibility of restrictions on movement between the countries. As the UK is a key destination for Irish emigrants, such restrictions could have implications for the Irish labour market, it said.

Moreover, with almost 400,000 Irish people resident in the UK and 230,000 British-born people resident in Ireland in 2011, many people could find themselves, post-Brexit, “being resident in a country where their right to residency has come into question”, said the ESRI.

The impact on cross-border movement north and south would be “at best inconvenient and at worst a worryingly regressive step”, added the report, which suggested the incidence of trade barriers following Brexit was “likely to be greater for smaller Irish firms”.

People are concerned, said Patricia Callan, director of the Small Firms Association. “The UK is our biggest trading partner and, for many companies, their first step into exporting.”

There are fears too that Brexit could make the UK more competitive for foreign direct investment, at the expense of Ireland. Northern Ireland is already preparing to match the republic’s corporation tax rate of 12.5% by 2018. Britain also already has a more attractive tax code in relation to capital gains tax and incentive schemes for entrepreneurs.

The Brexit threat is only starting to dawn on many businesses. “As a country I don’t think we’ve been taking it seriously enough,” said Simon McKeever of the Irish Exporters Association. “A lot of SMEs are still either not aware of it, or only waking up to it now, perhaps a little too late.”

The biggest concern for exporters is sterling. Since November last year, the UK's currency has weakened by 10.5%, making our products more expensive for UK customers to buy. "The immediate consequence of the vote is uncertainty," said McKeever. "That alone has resulted in a sell-off of sterling."

For all that, trade with the UK will continue, he added. There is a misconception that, if the UK does leave, Ireland would immediately negotiate a free trade agreement with it. Under EU rules we can adhere only to the same trade agreements as the rest of Europe. "Even if we feel we have a special status, we can't negotiate a separate agreement," he said.

There is a further risk that the EU may look for a punitive trade agreement with the UK, to discourage others. Such a move would affect Ireland disproportionately.

Britain accounts for about one-third of Irish imports. The introduction of trade barriers could mean those prices go up. It's a particular risk for energy, the vast bulk of which is imported from the UK.

"If the UK comes out and its economy weakens, the pound will weaken too," said McKeever. "That's a real danger. Our goods are already dearer in the UK than in November. If the UK moves into a phase of economic slowdown, people will have less money to buy our goods and services."

Businesses need to diversify their export risk, said McKeever: "Right now the UK, US and EU account for almost 80% of our exports," he said. "We need to be doing more to open up such markets as China, India and Africa."

Irish exports into the UK have reduced in recent years. A key focus of Enterprise Ireland has been to develop markets for client companies in the eurozone, the US and high-growth markets including China, India, Gulf states and Brazil. The overall concentration of exports into the UK has fallen from 42% to 37% over the past six years, according to Enterprise Ireland chief executive Julie Sinnamon.

"The UK, however, remains and will remain a critically important market for Irish companies," said Sinnamon. "At this stage, the uncertainty for businesses around Brexit and, for instance, any potential deferrals of capital expenditure or investment by UK companies, could have a knock-on effect for Irish exporters."

A British exit could undo much of the work done to encourage all-island trade, which has doubled to €3bn since 1995. "We feel that Northern Ireland's business community and economy stands to benefit more from being inside the EU," said Thomas Hunter McGowan, chief executive of Intertrade Ireland, a cross-border trade development agency established under the Good Friday agreement. "There are no positive outcomes for Northern Ireland from Britain leaving the European Union."

For Jason Coyle, director of Mr Crumb, a Westmeath maker of premium stuffing, Brexit is the great unknown. “No one knows what will happen if the UK exits,” said Coyle. Half of Mr Crumb’s sales are in the UK, compared with 10% in the rest of Europe. “I spend 50% of my time in the UK and no one there knows either.”

If the UK exits, Ireland will need to create “a special economic arrangement” with the UK, or even join it in some form of economic partnership outside of the EU. “For better or for worse, we are tied to the UK by proximity, language, family ties and common history,” he said

That said, he doesn’t really predict a Brexit. “There is too much uncertainty among the population as to what would happen if they actually left.”