Irish Examiner

IRISH exporters association

Brexit fears already stalk Irish firms

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If the UK does ultimately vote to leave the European Union it could have disastrous consequences for Irish firms. Several major business groups and think tanks outline here what they think could happen,

A barrage of economic reports from both sides of the Irish Sea have predicted dire consequences should the UK vote to leave the EU in its referendum in less than three months.

However, uncertainty about the in-out outcome is already buffeting the Irish economy in a most painful way — through the surge in the euro against sterling.

An economy like Ireland's which had undergone unprecedented levels of austerity for seven years of crisis needs every bit of help it can get. And last year the slump in the euro finally delivered for exporters and jobs as the ECB marshalled its quantitative easing artillery.

Finally, the battered economy had got the boost from devaluation that it had long craved — and all without being forced out of the euro bloc.

Last November, the euro had slumped to under 70 pence against sterling making goods sold into Britain by labour- intensive Irish firms and the multinationals highly competitive.

The Brexit uncertainty this year has unwound a lot of the good. By the time David Cameron had secured his unexpected re-election last May, the UK currency had weakened to around 73p.

With a referendum date set and UK opinion polls showing at best only a slim majority of Britons favoured staying in, sterling has slumped further. It was worth 78p per euro this week.

There has been no shortage of reports warning about the economic effects of a Brexit.

Institute of International and European Affairs

The first major report was published here a year ago, by the Institute of International and European Affairs.

The Dublin-based think tank took an expansive economic and social look –— warning that a Brexit would raise the spectre of a reconstructed Irish border and the deepening of partition of the island that only our grandparents could recall. In other words, a large chunk of the Good Friday Agreement would be negated.

That would be a consequence the think tank argued, of new migrant controls under a Brexit as the EU could necessitate new immigration controls on the M1 at Newry or the Derry road at Augnacloy.

Despite Mr Cameron's determination to keep the UK in Europe, a British exit from the EU would be hugely disruptive for the Irish economy, north and south.

The UK exiting the EU would strip 3.6%, or about €6bn from the Republic's export base should full tariff barriers be re-installed in Britain and the North and threaten the security of thousands of jobs across the whole of Ireland, the institute said.

Worst hit would be jobs in labour-intensive sectors such as agriculture, food and small manufacturing businesses.

The think tank said the consequences of the UK's departure would be felt more acutely across Ireland than any other European region and have a "disproportionate impact" on Irish-owned businesses because of the importance of the UK market for small exporters.

Irish Exporters' Association

The association's survey published last week showed 95% of its members want the UK to remain a part of the EU, but only half are at all confident that it will stay in. A large majority said a Brexit would harm the Irish economy, with most exporters here thinking so.

However, some 40% of the survey said Brexit would have a positive effect in attracting more foreign direct investment here. A small minority suggested Ireland should have a similar referendum if Britain were to decide to leave.

"If the British electorate votes to leave the EU it will have serious implications on bilateral trade and on our exports to the UK in particular," said association chief executive Simon McKeever.

"The biggest problem at the moment is the uncertainty that surrounds the outcome. This uncertainty has already weakened the pound against the euro by 10.5% since mid- November of last year, making Irish goods and services in the UK more expensive and therefore less competitive," he said.

Mr McKeever said that many companies in Ireland test the water by exporting to the UK, and "most Irish exporters unless they are British nationals will not have a vote in this referendum".

The Economic and Social Research Institute

The ESRI late last year forecast that bilateral trade flows between Ireland and Britain could fall by at least 20% in the long-term, if Brexit were to become a reality.

In the report, the think-tank said neither Britain or Ireland would benefit from a Brexit and poured cold water on any notion that Ireland would see any meaningful benefit from redirected investment flows from Britain.

A chief reason for this, it said, is that many multinationals in Britain — such as car makers — are in sectors unlikely to relocate in Ireland anyway and that Ireland is a small economy already punching above its weight in terms of attracting foreign investors.

"The analysis suggests that larger EU member states — such as Germany, France, Italy, Spain and Poland — would benefit more from the redirection of new foreign direct investment away from the UK," said the think tank.

The Small Firms Association

The association warned the SME sector could be the hardest hit of all in the case of Brexit with the risk that some could even be driven out of business by the fallout.

"Trade between the two countries directly supports over 400,000 jobs — half of them in Ireland. For small Irish businesses looking to expand, the UK is often their first export market and 43% of exports from indigenous Irish companies are destined for the UK.

"The UK is a strong voice for free trade, reduction in red tape and other pro-enterprise policies at EU level. For all of these reasons, it is in the interests of the Irish small business community that the UK remains in a reformed EU.

"Small firms do not have the same degree of mobility, flexibility and diversification that may help larger businesses to navigate the risks posed by a UK exit from the EU. Small businesses may be dependent on a UK supplier, investor or market, which means their very survival hangs in the balance," said the association's assistant director Linda Barry.

Confederation of British Industry

The UK economy would face a "serious shock" even if it were to strike new trade deals rapidly after leaving the EU, the Confederation of British Industry said in its report published earlier this week.

Even the most favourable scenario under which the UK strikes a new free trade agreement with the remaining EU bloc within five years of the vote to exit would cost its economy £55bn (€70.5bn).

A less favourable outcome by which long drawn-out talks take place under World Trade Organisation rules would cost its economy even more, £100bn.

The confederation's figures were based on a 79-page report by accountants PwC, which deals with the hot issues of trade, employment, and migration. The report made few references to the Republic, but noted the importance of the market here for Britain.

"We (the UK) still export more to Ireland, for example, than to China and Hong Kong combined. In the future, we expect this to change, but it would be a slow process, as this would require structural adjustments to reorient exports towards emerging markets," it said.

It also cited historical research showing EU membership delivers big US foreign direct investment in the UK, Ireland, Spain, and Sweden.

The confederation said increased economic and political uncertainty following a Brexit vote would be "significant" and any talks could drag on for more than two years before its new relationship with the EU is agreed.

It expects "increased financial market and exchange rate volatility, higher-risk premiums in credit and equity markets, and possible consequential impacts on business confidence and investment". "A process for leaving is set out in Article 50 of the Lisbon Treaty, but it's worth saying that Article 50 has never been triggered.

"By choosing this path the UK would be taking unprecedented action," said director of economics with the confederation Rain Newton-Smith.

Oxford Economics

Echoing the Institute of International and European Affairs report a year previously, Oxford Economics warned earlier this week that Ireland's economy would be the "most vulnerable" to Britain's potential exit.

The study found in the worst case scenario as much as 2.2% could be wiped off Irish GDP rates "in the long run".

The research also found "in any plausible scenario" the UK economy would shrink should British voters choose to leave the EU. A clampdown on immigration would leave a funding gap of between £22bn and £30bn that would need to be plugged by spending cuts or tax increases from 2030 onwards.