

Opinion: Potential Brexit ‘already impacting Irish exports’

A leave vote in Britain would affect exporters more than anyone else in the country, writes Simon McKeever

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Ireland exported nearly €14billion of goods in 2015 and over €20bn of trade in services in 2014 to the UK. Photograph: Getty Images

The prospect of Ireland’s single biggest trading partner moving outside the single EU market will obviously be a big concern for a small island geographically situated on the outskirts of the European Union but it will affect exporters more than anyone else in the country. Ireland exported nearly €14billion of goods in 2015 and over €20bn of trade in services in 2014 to the UK.

Any Irish company with ambitions for rapid growth needs to get off the island. Most test the water and begin expanding their business through exports to the UK. It is a key export market for the domestic sector, 15 per cent of all Irish goods are exported to the UK but, if you drill down further into this, around half of exports from indigenous Irish companies are dependent on this market.

The UK is by far and away the most important market for the food and drinks industry accounting for 41 per cent of all Irish agri-food and drink exports in 2015.

In 2014, 20 per cent of Ireland's international trade in services went to the UK, this includes Ireland's huge IT sector which accounted for nearly a third of services exports to the UK, over 20 per cent was in transport services and 14 per cent was made up of financial services.

But it is not all one way, bi-lateral trade between Ireland and the UK is a mutually beneficial relationship which amounts to over €1bn per week. Ireland is also the first port of call for many first time British exporters and is the UK's 5th largest export market.

The UK accounted for 26 per cent of Ireland's total goods imports in 2015 and it accounted for 10 per cent of imports of services in 2014. Some could say we are umbilically linked.

The Irish Exporters Association recently conducted a poll with members regarding Irish exporters' attitudes towards a potential "Brexit" in the upcoming UK referendum.

Ninety per cent of those surveyed export to, or do business with, the UK. Our members are clearly worried, the biggest concern for all involved is the uncertainty of what the outcome will be if they vote to leave the EU.

Members surveyed have the following concerns of a UK exit: introduction of tariffs (61 per cent); impact on jobs (60 per cent); free movement of people (59 per cent); free movement of capital (48 per cent); free movement of services (59 per cent); and 83 per cent were concerned about the impact that it would have on Irish economic growth.

It is hard to imagine the island of Ireland with an external EU border between the Republic and Northern Ireland. Of the IEA members surveyed, 78 per cent think that an exit would have a harmful effect on Northern Ireland and 73 per cent are concerned about the re-introduction of borders controls.

Best case scenario there would be customs borders implemented but at worst tariffs would be applied.

The whole issue is rife with uncertainty. Firstly, polling of the UK electorate shows it to be a very tight race and too close to call at this stage.

Secondly, what the trade relationship would look like between Ireland and a UK that exists outside the EU will only be decided after they vote to leave. It is a common misconception that,

due to the close relationship between Ireland and the UK, we would be in a position to negotiate our own bilateral trade agreement.

This couldn't be further from the truth, negotiating trade agreements is an EU level competence and our trade agreement with the UK would ultimately be decided in Brussels, with no doubt a strong call for special status by whatever government we might have by then.

If we consider the uncertainty of the referendum campaign in the more immediate environment, it has resulted in Sterling being weakened dramatically.

Last November, the euro had dropped to under 70 pence against Sterling making Irish goods sold into Britain highly competitive. Irish firms were selling into Britain at the most competitive exchange rate in 10 years. Brexit uncertainty has since weakened the pound against the euro by 15 per cent and this has had an effect on our members with 60 per cent reporting that this fluctuation has already had an impact on their business and with 79 per cent worried about further Sterling weakness in the lead up to the vote.

A new report by Davy has shown that uncertainty over the upcoming vote has already started to harm growth in the UK economy.

Forecasts for UK GDP growth in 2016 have been revised down sharply from 2.5 per cent to just 2 per cent in March. The report also notes that a 1% drop in UK GDP has led to a 0.3 per cent fall in Irish GDP in the past. Generally a time of uncertainty is not a time for growth and investment and following recent warnings from both Rolls Royce and Airbus there is a concern that investment in the UK will become stagnant or even fall in the event of a Brexit.

There is one silver lining to the Brexit cloud, 40 per cent of our members were of the opinion that Brexit would have a positive effect on FDI into Ireland and there has certainly been an increase in interest in that respect but it's very hard to predict. Currently the UK are by far the biggest beneficiary of FDI in Europe as a direct result of their access to the EU single markets, if they leave it will create an opportunity for other countries in the EU to improve their economic advantage. It is possible that FDI will increase into Ireland, we are the last stop before the Atlantic, English speaking and with a highly educated workforce. On the other hand, it could go to a country like France, or Germany, which is closer to the locus of control in Europe.

Ireland was the fastest growing economy in the EU last year. According to the latest economic commentary from Investec, we are on course to retain this title for the third consecutive year. Exports are the driving force of this growth and this needs to be protected. Brexit would have a huge impact on our export industry yet most Irish exporters, unless they are British Nationals will not have a vote in this referendum.

There are however about ½ million Irish citizens in the UK and a further 290,000 UK citizens resident in Ireland who do have a vote. There are 1.2 million voters in Northern Ireland and there is about 6 million UK residents of Irish decent. Irish companies who trade with UK companies are important counterparts and in regular contact with them, and most of us have relatives and friends in the UK.

The vote is less than two months away and the question we need to ask ourselves is: what are we doing as a country, as business leaders, to try and influence the vote. We do have some influence, it might be small but the margins are so tight that it might just matter. We have for certain a lot of skin in this game and we need to ensure that we do all we can to have a voice in this campaign and mobilise the Irish contingent of the UK electorate.

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