

# Brexit

07<sup>th</sup> February 2017



# Agenda

- Timeline for Exit
- Court Challenge
- Likely Outcome
- Position Statement 17.01.17
- How Has the Pound Reacted?
- Ireland's Concerns
- Anticipated Business Sector Impact
- Opportunities
- What Do We Know?
- What Should we Do?

# May 2016 – Worst Possible Outcome?

- Pre-Brexit worst case scenario profiling by Deloitte:
  - ❑ The referendum results in a “Leave” vote
  - ❑ The Prime Minister resigns!
  - ❑ The whole thing takes ages.....

# Timeline for Exit

- UK voted 52% - 48% in favour of Leave
- UK must invoke Article 50 of the Lisbon Treaty
- This gives both sides two years to agree the terms of the split
- Theresa May has indicated her intention is to invoke Article 50 by the end of March 2017
- A clear idea of what kind of deal the UK will seek from the EU is emerging, in terms of trade and immigration, this will only crystallize when Article 50 is invoked and negotiations begin
- UK will enact a Great Repeal Bill to incorporate EU law into UK law, after which the UK will decide what elements of EU law it wishes to keep
- Agreement on a deal should take place by summer 2019, unless an extension is agreed
- Many commentators/politicians consider the complexity of exiting will result in the negotiations taking far longer than two years

# Court Challenge

- Successful High Court challenge to Theresa May's right to trigger Article 50 without getting the backing of parliament
- Downing Street have appealed the High Court decision to the Supreme Court, the appeal has been upheld and an Act of Parliament is going through the Commons
- Downing Street intend sticking to the March 2017 timeline
- It is likely MP's and the House of Lords will give the go-ahead for talks to begin due to the referendum result, but the act of parliament would open up the opportunity for negotiations and caveats, such as a requirement to stay in the European single market

# Likely Outcome

- Theresa May has talked about a “unique” solution being required, many in the EU would like to accommodate this
- However, this will require acceptance among member states, 20 of the 27 member states would have to vote in favour, representing 65% of the EU population
- This is considered a major risk to the “middle way”
- The most likely outcome is the World Trade Organisation (WTO) model, whereby the UK exits the EU and the single market and takes full control of domestic policies and trades with the EU under a customs and tariffs regime available to WTO members
- This scenario would be highly disruptive to trade and commerce
- Would spell an end to the UK’s single market benefits of free movement of services, goods, people and capital
- This scenario may be the baseline EU negotiating position when Article 50 is invoked

# Position Statement 17.01.17

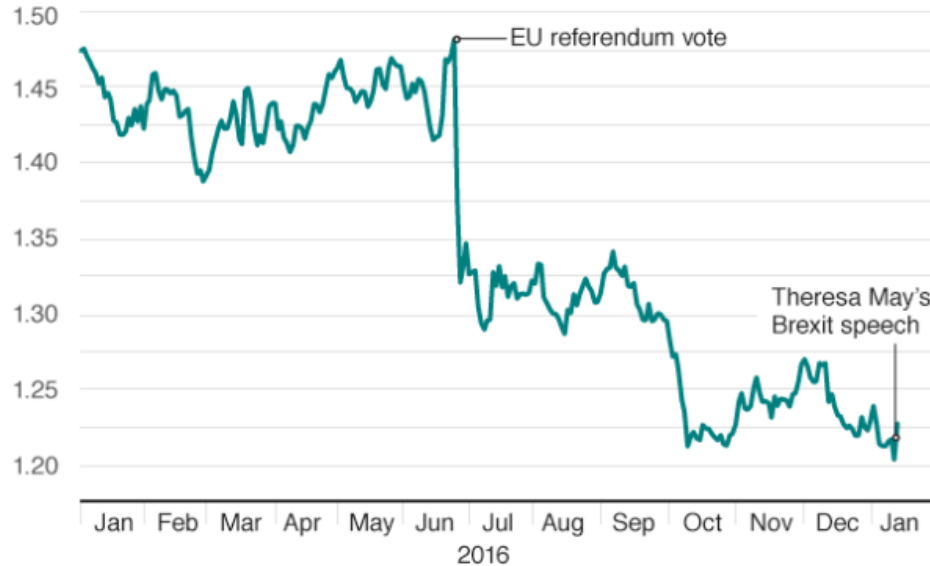
Theresa May has outlined the UK position as follows:

- UK cannot remain a member of the single market after leaving the EU (free movement of goods, workers, services and capital without any tariffs) – comprehensive free trade agreement sought giving the greatest possible access
- The UK will leave the EU Customs Union (imposes common external tariffs on goods from countries outside the EU) – bespoke customs union agreement with the EU to be developed
- Restrictions to EU migration – unclear how this would operate, but likely to be a work permit system with priority to different sectors
- Fate of EU citizens currently in UK, and UK citizens currently in EU? Rights of EU citizens currently in the UK will not be guaranteed without a reciprocal agreement for UK citizens in the EU
- UK will no longer be bound by the Luxembourg based European Court of Justice
- Contributions to EU budgets will cease, but appropriate contributions in some circumstances may be required to be part of European schemes
- Phased process of implementation proposed after a deal has been reached
- “No deal better than a bad deal” - but deal will be put to parliamentary vote

# How Has the Pound Reacted?

## Pound against the dollar over the last 12 months

How many dollars £1 buys



Source: Bloomberg

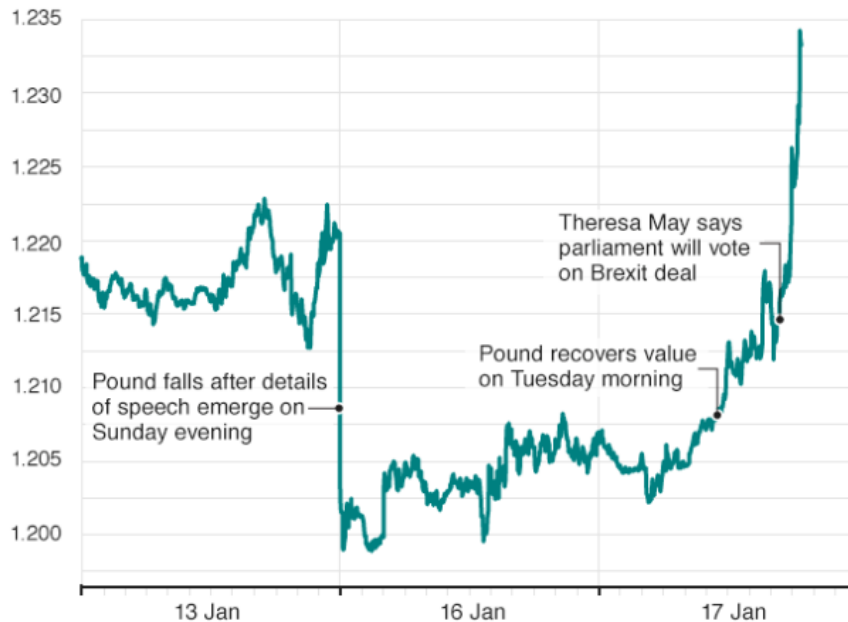




# How Has the Pound Reacted?

## Pound against the US dollar since Friday

How many dollars £1 buys



Source: Bloomberg



- 1.8% rise against the €

## Political:

- Common travel area with NI – maintaining the common travel area between North and South is one of UK's 12 stated objectives in negotiations
  - Border tended to be a customs rather than security border
  - This will return if UK/EU adopt different external tariff strategy
  - Intention is for this to be as “frictionless” as possible – technology?
- Michael Lux, former head of European Commission customs procedures unit in testimony to a House of Commons select committee stated “if you define seamless as no border controls then the answer is no, at least for Ireland, because it is obliged to apply EU law”...a seamless border is “fantasy”
- EU external border will run through Ireland – there are approx. 300 road crossings to N.I., how will the M1 be policed?
- Peace process – potential negative impact (NI voted Remain)

# Ireland's Concerns

## Economic:

- Our interests would be better served by a softer Brexit, as it would help protect trade and make it easier to negotiate the freedom to move and work between Ireland and the UK. The harder the Brexit, the bigger the risks for Ireland
- UK leaving the single market has big implications for Irish businesses, raising questions about future trading relationships, business supply chains and access to the UK market. May said she wants to maintain as much free trade as possible post-Brexit, but tough talks lie ahead
- If the UK leaves the customs union, then some kind of control on the movement of goods across the Border is inevitable. The Government here will hope that this can be done largely using technology, as opposed to queues of lorries
- Irish exporters to the UK could also face new customs checks and bureaucracy, as well as new tariffs on Irish products sold in the UK, and UK products sold here. These negotiations will be complex and slow
- Without some kind of transitional deal, Irish exporters would face immediate tariffs selling in the UK, and vice versa
- 37% of Irish exports go to UK, €7.5bn – currency volatility is the biggest concern and has a direct impact on market access
- Restrictions to market access – most road traffic from Ireland goes through the UK – will it have to bypass UK to get to EU?
- The loss of the UK as a negotiator and our best ally – our interests generally align

# Ireland's Concerns

## Economic Example:

- President of Irish Co-operative movement, Martin Keane considers it will take ten years to disentangle the complex North-South supply chain that has evolved since Britain joined the EU
- 600m litres of milk is exported from NI to the republic every year, providing 25% of our milk requirements and supplying a milk processing industry
- This will incur tariffs, and there will be an obstacle to Ireland providing milk products to the EU market on the basis of the milk coming from outside of the EU
- Road traffic from Dundalk to Letterkenny will pass over two borders
- Will TIF carnets be required – bureaucracy and cost?
- Will TIF carnets be required for vehicles travelling through Liverpool and Dover to reach the EU?
- Will TIF carnets be required for goods travelling to the EU via Heathrow or Gatwick?
- Unlikely that there will be any favouritism shown to Ireland by the other EU states – there will be no “Brexiteer Fairy” to sort it all out

# Ireland's Concerns

## Danny McCoy, Chief Executive IBEC 17.01.17:

*"This is an aggressive move by the UK, showing little regard for our trading relationship and for relations with other EU member states. Theresa May has signalled a change to the UK business model, away from a collective European rules-based approach, towards a more nationalistic, isolated stance.*

*This is likely to lead to a protracted and unwelcome period of uncertainty and instability for business. Ireland is uniquely exposed to the risks given our deep economic ties with the UK."*

*"She talks very eloquently but she's saying something very harsh, and that's the way we need to interpret this. I think she knows it's a 'no' deal. They're out and they're going to be aggressively looking for that trade deal and we can expect aggressiveness coming on the corporate tax rate as well.*

*She's offered up a fairly appalling vista for the business community here in Ireland to start a deal with. It is going to be much more significant than many people are giving credit to."*

# Anticipated Business Sector Impact

## HIGH IMPACT

- Construction/Homebuilding
- Real Estate
- Retail
- Airlines/Travel
- Hospitality/Leisure/Tourism
- Automotive
- Agriculture
- Power & Utilities
- Financial Services

## MEDIUM IMPACT

- Business Services
- Healthcare
- Pharma/Biotech
- Industrial
- Building Products

# Opportunities

As an example, Ireland is positioned to be a nett gainer in financial services. Why is Ireland an attractive destination?

- English speaking
- Common law jurisdiction
- Regulations are comparable to UK
- Existing financial services community
- Easy assimilation of English people into society
- Excellent professional services (e.g. legal practices)
- Good quality of life
- Well connected air travel

# Opportunities

What drawbacks might there be in Ireland as a destination?

- Lack of available accommodation – housing crisis!
- Lack of school spaces for children
- No international schools
- Lack of readily available office space
- Prime rents in Dublin are 2<sup>nd</sup> highest in Europe, only Paris is higher (Frankfurt €30-€40/sq.ft.)
- We have the longest leases in Europe, elsewhere these are normally for 10 years – 25 year leases are seen as prohibitive
- HSBC – 1,000 staff to relocate to Paris (20% of City of London business)
- UBS – 1,500 staff may relocate to Frankfurt



# What Do We Know?

- The UK economy has not collapsed
- Sterling has reduced in value, but Bank of England action has prevented a slide and provided reassurance, with a bounce when Theresa May outlined UK intention
- Confidence and trading monitors indicate “business as usual” – for the moment
- Former President of the European Commission Herman von Rompuy has noted that Brexit is likely fourth in the list of EU leaders priorities after:
  - ❑ The refugee crisis
  - ❑ Terrorism
  - ❑ The need to stimulate economic growth and employment

# What Should We Do?

- Wait and see? – No!
- Plan for the worst – hope for the best
- Short term – how do we respond to uncertainties?
- Medium/long term – future proof your business to protect against over-exposure to higher risk industries
- Identify any elements of your business model that require 30 months or more to transform
- Identify and target industries likely to relocate to Ireland
- IDA has reported 100+ enquiries from financial services industry alone

# And Finally, a Summary of Theresa's Plan

## Theresa May's Brexit Strategy: 12 key points

1. Providing certainty "wherever we can"
2. Ensuring laws made in devolved parliaments
3. Strengthening union between UK nations
4. Maintaining Common Travel Area with Republic of Ireland
5. Controlling number of EU migrants into UK
6. Guaranteeing rights of EU citizens living in Britain & rights of British nationals in other member states
7. Protecting and extending EU workers' rights
8. Pursuing Free Trade Agreement with EU
9. Rediscovering UK's role as a global trading nation
10. Continuing to collaborate with EU partners on major science, research and technology initiatives
11. Working closely with Europe on foreign and defence policy
12. Initiating a phased process of implementation

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# Thank you.

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