Brexit: The implications for Irish business

July 2016
Introduction

The decision of the UK electorate to end the UK’s membership of the European Union is one of the most significant events to occur in the history of the EU. The UK is one of Ireland’s key trading partners, and we feel it is important that businesses are aware of the impacts Brexit may have on them. Using that knowledge, they can prepare for and manage the potential risks, and the potential opportunities, that a lengthy and uncertain departure from the EU by the UK will create.

Many Irish businesses have come through the worst recession in decades and have shown great resilience. I have no doubt that with our natural strengths and agility, Irish business will navigate these uncertain waters and emerge stronger than before.

We hope that this document will encourage discussion in your organisation about the coming fundamental change to the structure of the EU and its effect on your business, and we will be delighted to support and advise you as you plan for the future.

Feargal O’Rourke
Managing Partner
PwC Ireland
Contents

1. Executive summary 3
2. The key things to think about after Brexit 5
4. Brexit scenarios 9
5. Macro economic picture 12
   i. Exchange rate volatility 15
   ii. Foreign Direct Investment 16
   iii. People and mobility 17
4. Industry view
   i. Financial Services 19
   ii. Agri-food 21
   iii. Energy 23
   iv. FinTech & Digital 25
   v. Pharma 27
5. Key contacts 30
6. References 31
The United Kingdom Brexit referendum was one of the most important events in the history of the European Union, and in the history of the UK's relationship with the rest of Europe.

The risk and uncertainty for business following the UK's decision to leave the EU will be long-lasting. The negotiation of exit in itself will take many years. When Greenland, a significantly smaller economy, voted to exit the EU in 1982, the process took three years to complete.

What will change and what the change will be is still unclear. However, there can be no doubt that this is a fundamental shift in some of the most basic assumptions about business in Ireland. Companies need to re-examine every aspect of their operating model to be ready for the challenges and opportunities that lie ahead.

This document highlights the economic impact in the areas of Foreign Direct Investment, exchange rates, and people mobility, and the issues for industries like Financial Services, Agri-food, Energy, Pharmaceutical and Digital arising from the Brexit vote.

HM Treasury originally estimated that the impact on UK GDP could be in the range of -3.8% to -9.5% depending on the negotiated relationship the UK has with the EU.

We believe that the more the UK can access the EU, the greater the benefit to Ireland.

Executive Summary

Economic Impacts

We consider the most important economic results of Brexit are in the following areas:

Exchange Rate

The immediate effect of the exit vote and the uncertainty of the result was evident in the Sterling exchange rate, which declined sharply against the Euro. This makes our exports to the UK more expensive, although our imports will be cheaper.

Foreign Direct Investment

The ‘leave’ result in the Brexit referendum was initially believed to be a good thing for Ireland, as it was thought that the UK would be a less competitive FDI proposition. However, this needs to be reconsidered as the UK would be free to create investment-friendly tax policies that may divert attention from Ireland as an FDI option. Indeed the Chancellor of Exchequer has already signaled this approach. Also, Ireland’s ability to attract FDI is hindered by a lack of housing supply.

People and mobility

All industries rely heavily on human talent. The exit from the EU is likely to lead to restrictions on immigration to the UK (and vice versa). EU citizens may need to obtain permission to work in the UK under rules similar to the current immigration requirements for non-EU citizens.

83% of CEOs said they believed that Ireland would be negatively impacted should the UK leave the European Union.
Impact on industry
The main industries we believe will be affected, and the resulting impacts, include:

Financial Services
Changes in corporation tax, VAT, capital and currency controls and passporting may see businesses considering where they are located. Increased costs arising from firms operating under two (UK and EU) regulatory frameworks, changes in capital structures, and the danger of trapped capital in EEA and Non-EEA (i.e. UK) jurisdictions will be considerations.

Agri-food
The UK will always be an important market for Ireland, exports are valued at €4.5bn and imports €4.1bn. We would expect to see competition from Non-EU nations to increase in the valuable UK market. Cost of border control and customer duties will need to be mitigated by expansion into new markets and process efficiencies.

Energy
Ireland imports 85% of its energy from the UK. We rely on the UK for our emergency supplies, which is governed by EU regulations. Post Brexit, these arrangements will have to be renegotiated. Changes in the energy relationship may add costs to households and businesses alike.

Pharmaceutical
The Leave decision is expected to have an effect on regulation and the supply chain in the pharma industry. Cross-border research funding and collaboration may also be at risk.

Digital
The digital economy currently very successfully trades across borders - but operating across the new borders Brexit may create will present challenges for technology companies.

Post-Brexit trade relations
We have set out five possible relationships that the UK may have with the EU following a Brexit vote, from a Canadian-type trade agreement to a World Trade Organisation-style relationship.
Whatever the legal basis for a future trade agreement between the UK and Europe, it is clear that the negotiations will take a considerable amount of time, and unravelling the legal knots that currently bind the EU with the UK could take many years.
Businesses will need to manage uncertainty and disruption within this period.

What you are saying to us
The results of our 2016 CEO Pulse Survey, which sought the views of 250 chief executives in Ireland, revealed the level of concern about Brexit before the referendum.

83% of those polled said they believed that Ireland would be negatively impacted by UK leaving the European Union.

Of those who viewed Brexit as likely to have an impact, we asked: “What is the position in your organisation regarding scenario planning for a possible Brexit?”

66% considered Brexit so important that they had either commenced, planned to undertake or had completed scenario planning in the event of Brexit.

As Brexit is now a reality, we encourage and recommend starting and reviewing your contingency planning as soon as possible.

We hope that this document will stimulate debate within your organisations, and we are available for further discussions with you.
The key things to think about after Brexit...

Sterling movements
The immediate weakening of Sterling has been the catalyst for significant trade fluctuations. The British pound dropped to its lowest level in 31 years in the aftermath of the Brexit leave announcement. The longer the uncertainty continues around post-Brexit trade and investment scenarios, the more extreme that volatility may become.

Regulatory changes
The extent of the regulatory changes that will impact on the UK and subsequently every other EU countries is potentially massive. They will touch upon every aspect of business and society. The changes will take a long time to be negotiated and agreed, and may have a significant impact across all industries and sectors.

Customs and trade
Approximately 14% of Irish goods and services are exported to the UK. Currently, Irish trade is heavily reliant on free access to the UK market. However, our post-Brexit trade agreements with the UK will be negotiated at an EU level. Ireland’s economy and export market will be significantly impacted by border controls, tariffs and excise duties.

Supply chains and routes to market
We could see an overall reduction in organisations procuring goods and services from the UK as organisations aim to limit their exposure to any future tariffs imposed on UK imports. Services may also be affected, with UK-based service centres and supply chain hubs becoming unviable.
Foreign Direct Investment

Britain’s exit from the EU leaves Ireland as the only English-speaking country in the European Union. This will obviously create opportunities for Ireland, but this must be approached with caution. The UK’s Chancellor of the Exchequer has already indicated that the UK will adopt tax strategies to attract and retain FDI.

Taxation changes

The Minister for Finance has stated that he does not see any threat to Ireland’s 12.5% corporation tax rate as a result of the UK leaving the EU. Uncertainty still exists in relation to future tax changes in areas such as corporate taxes, VAT and workforce mobility.

Free movement of people

The UK’s exit from Europe is likely to lead to restrictions on immigration to the UK and vice versa. EU citizens may need to obtain permission to work in the UK under rules similar to the current immigration requirements for non-EU citizens. Likewise, citizens from the UK living and working in Ireland are likely to be equally affected by the Leave vote on their ability to work here.

Changes to your business model

Organisations may need to reassess where and how they do business abroad, particularly if border controls are reintroduced and new regulations and trade deals are announced. Companies who are currently undertaking an acquisition in the UK should consider the full economic implications before proceeding.

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Brexit: The Facts

The UK government held a referendum on June 23, 2016, and the result was the decision to exit the European Union. The Leave campaign won by a margin of 52% to 48%.

The turnout was 71.8%, meaning over 30 million people voted in the referendum, making it the highest turnout in a UK-wide vote since the 1992 General Election.

The Lisbon Treaty dictates the mechanism by which the UK can leave the EU. The Treaty allows for up to two years of negotiations. If no agreement has been reached by this point, all 27 other member states either have to unanimously agree to extend the negotiation period, or Britain exits with no deal in place. As there is no template for such an event it is likely to be a long and complex process resulting in a prolonged period of economic uncertainty. The UK Government anticipates the exit process could take at least 10 years.

The UK will cease to be subject to European Union treaties at the end of the two year period from the day it gives its notice of its intention to leave the EU under Article 50(2) of the Treaty on European Union.

There is no obligation on the EU to complete a full trade or access deal with the UK post-exit, only to negotiate the terms of the exit.
**Brexit timetable**

**Thursday, 23 June 2016:** UK holds referendum on EU membership.

**Friday, 24 June 2016:** Results of referendum become known.

**Q4 2016/Q1 2017:** UK Government expected to notify the European Council of its intention to leave the EU under Article 50. There is no clear timeline.

**Q2 2017:** French Presidential Election.

**Q3 2017:** UK takes on presidency of the EU Council.

**Q4 2017:** German Parliamentary Election.

**2019 onwards:** It is possible that a final deal will not be reached within the two year period allowed under the Lisbon Treaty.

**2019:** European Parliament elections. The UK elects 73 members. It is unclear if they will participate or not.
Brexit scenarios

The more the UK continues to do business with the EU, the less the economic impact on Ireland. These are the possible exit scenarios currently open to the UK, and their resultant impact on UK and Ireland GDP.

**The Canadian Model**
Comprehensive Economic Trade Agreement (CETA)

- 99% of customs duties removed
- UK would not have full access to the EU; No passporting for FS; No full access for air transport to EU; quotas on agri
- Rules of Origin: Must prove products originated in UK – cost to implement circa £3bn
- Free movement of key personnel only
- UK GDP falls 6.2%; Ireland GDP falls 1.86%

**The Swiss Model**
European Free Trade Association (EFTA)

- UK and the EU enter into a bilateral trade agreement
- UK access to sector specific areas of the single market
- UK would align with the relevant EU legislation, rules and regulations
- GDP Impact data not available

**The Norwegian Model**
European Economic Area (EEA)

- The UK joins the European Economic Area
- Maintains access to the single market
- Still makes a substantial contribution to the EU budget
- Must comply with EU standards and regulations over which it will have little influence
- UK GDP falls 3.8%; Ireland GDP falls 1.14%
The UK and EU establish a customs union

- UK accepts the EU’s external tariffs when trading with non-EU countries
- UK have no influence over these tariffs, which would not apply to the service markets
- GDP Impact data not available

This model is looking increasingly less likely

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The World Trade Organisation Model (WTO)

- UK fails to secure a trade agreement with the EU
- Must rely on normal WTO rules for access to the European Market
- May be imposition of tariffs
- UK GDP fall between 5.4% and 9.5%; Ireland GDP falls by 2.85%

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The Turkish Model Customs Union

- The UK and EU establish a customs union
- UK accepts the EU’s external tariffs when trading with non-EU countries
- UK have no influence over these tariffs, which would not apply to the service markets
- GDP Impact data not available
**Ireland and the UK exchange €1.2bn worth of goods and services weekly** - Impact of Brexit dependent on the nature of the withdrawal agreement

**Likely model**

*Trade agreement & common external tariff?*

Free movement of capital, labour, goods and services would end or be restricted, meaning:

- **Increased number of importers/exporters**: Indigenous SMEs may be classed as importers/exporters and would be subject to European regulation. These SMEs are probably least equipped to deal with potential new resources, systems and procedures required.

- **Customs formalities**: Trade with the UK and movement of people may face a border control with associated transactional costs (e.g. brokerage & bank guarantees) and time delays.

- **Administrative and Regulatory burden**: Specific paper work may be required (similar to Turkey).

- **Revenue audits for non-established importers/exporters**: All businesses or individuals whose trading activities include imports and/or exports from or to a non-EC country may be subject to a customs audit.

- **Impact also for**: Export Licensing/Excise Controls.
Macro economic picture
The UK is a key economic and trading partner for Ireland...

Approximately 14% of Irish goods exports go to the UK.

30% of all employment is in sectors which are heavily related to UK exports.

Indigenous manufacturing firms sell approx. 43% of their exports to the UK.

The ESRI estimate that Brexit has the potential to reduce bilateral trade flows by as much as 20%.

85% of Ireland’s energy product imports come from the UK.

Irish trade is heavily reliant on free access to the UK market, meaning Brexit would have a significantly negative impact on Ireland’s export market and economy.

However, reliance on the UK market has been falling steadily over the last few decades...

The share of Irish exports to the UK has fallen from 18% to 14% over the last decade.

Similarly, the dependence on the UK as a source of goods imports has fallen dramatically, with the share decreasing from 50% to 26% since 1975.
The UK remains a vital trading partner - but Ireland operates in the global economy

**Ireland Exports:**
- UK 14%
- EU (ex. UK) 40%
- NAFTA* 26%
- Other 20%

However, Irish owned manufacturing firms are much more dependent on the UK market than foreign owned manufacturing exports:
- Irish owned companies export 44% to UK
- Foreign owned companies export 11% to UK

**Ireland Imports:**
- UK 26%
- EU (ex. UK) 35%
- NAFTA* 17%
- Other 22%

Importance of the EU for imports of goods has increased by approx. 60% since 1975, while reliance on UK imports has fallen by approx. 50%.

**Notes:**
* NAFTA: US, Canada and Mexico
Period: 2015
Initial thoughts were that Brexit would be a positive for Ireland, effectively reducing the competitiveness of Ireland's main EU rival for FDI. However, further consideration leads to some negative conclusions and uncertainty amongst the business community, given the freedom the UK would have to mold investment-friendly tax policies.

Decision-making on FDI is informed by a range of factors. The health of the international economy, access to talent, impact on trade flows, currency volatility, regulation, market access and tax matters are all important in deciding where your foreign investment is directed. However, the one consistent theme after Brexit is uncertainty.

In looking at some of the specific considerations for FDI investors, it will be necessary to consider them by reference to where the group is headquartered, how material the UK market is against the EU and international markets, and what the existing role of the UK is in the particular business model and supply chain. For groups looking at new FDI investments, including entrepreneurs and start-ups making FDI decisions for the first time, factors such as EU access, the availability of talent, sustainability and certainty of regime and business environment have never been more important.

Exchange Rate Volatility

Following the Brexit referendum, there were significant fluctuations in the currency markets with sterling falling to a 31-year low against the dollar.

- The most immediate impact for business is via the exchange rate.
- The recent sterling decline against the euro makes Irish exports more expensive from a British perspective, hence compounding the negative effect on export demand and economic growth. However, UK imports into Ireland have now become cheaper.
- The short term financial impact of sterling exposure will be on margin deterioration and the potential of exit clauses in contracts.

- Recent steps outlined by the Governor of the Bank of England, Mark Carney, have helped steady sterling.
- Furthermore, a proposal by the Chancellor of the Exchequer, George Osborne, to reduce the corporate tax rate has further steadied the pound.

GBP per 1 EUR

<table>
<thead>
<tr>
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<th>01 June 2016 - 04 July 2016</th>
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<tr>
<td>June</td>
<td>1.32</td>
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<tr>
<td>23 June</td>
<td>1.30</td>
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<tr>
<td>01 July</td>
<td>1.26</td>
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Source: www.oanda.com
From an overall FDI perspective, the UK being outside the EU might suggest scope for it to introduce additional FDI-friendly measures – see the Headwinds for Ireland section.

Ireland clearly remains well placed in offering the unique combination of a sustainable low-tax regime, a dynamic English speaking business environment and certainty on EU and Eurozone membership. These are critical factors in almost all FDI location decisions that touch on Europe.

### Irish VAT

#### Implications of Brexit

- **Importation of Goods**
  - Import VAT may become payable up-front at the point of importation of goods from the UK.
  - We would not expect any change in the ultimate VAT cost of imported goods.
  - However, a cash flow/funding cost would arise (funding cost of paying the Import VAT and then re-claiming in subsequent VAT return period).
  - This would also result in increased administration/compliance costs.

- **Financial Services VAT**
  - Brexit may result in a change to the financial services competitive landscape.
  - The UK may take the opportunity to diverge from EU legislation and case law and, instead, shape VAT legislation in line with its national interests (in particular the “City of London” influence).
  - The UK may ignore unhelpful European Court of Justice decisions that narrow VAT exemption applying to insurance intermediary services. The Irish FS industry would be put at a competitive disadvantage (potentially higher irrecoverable VAT cost versus the City of London).
  - However, some compensating advantages could accrue for Irish located Financial Services companies, in particular an improved VAT recovery entitlement (as any income earned from UK customers would become a “qualifying activity” for VAT purposes).

### Headwinds for Ireland

The UK may adopt a range of defensive polices:

- **Corporate tax reforms**: Increasing the tax competitiveness by reducing tax rates to counter lack of access to EU markets. The Chancellor of the Exchequer has already announced his intention to reduce tax rates. However, ESRI studies suggest that reductions in UK corporation tax combined with reduced EU access make London less attractive, Paris and Frankfurt more attractive and Ireland only marginally more attractive.

- **VAT on outsourcing**: Other measures, for example, reverse European Court of Justice decision that imposes VAT on Insurance Outsourcing creating a highly competitive outsourcing industry in the UK.

- **State aid**: Brexit would provide the UK with the freedom to offer State Aid. However, it will remain a member of the OECD, and is committed to following the OECD’s BEPS initiatives.

- **Restrictions/controls on freedom of movement**: Between the UK, including Northern Ireland, and the Republic, resulting in less scope to fill skill shortages.

- **Patents**: specifically for the Pharma industry. If European patents only cover the EU market, there would be a risk of the additional administrative burden of having to obtain UK patents.
People and mobility

While the ultimate impact of Brexit is unknown as of yet, there are a number of key areas in which the impact is likely to be felt:

- Workforce Mobility/Border Restrictions
- Pension Schemes
- Social Security

In Ireland, 15,000 new Personal Public Service Numbers were issued to UK nationals in 2014. In the same year, the UK issued 17,000 new National Insurance Numbers to Irish nationals. Ireland and the UK share similarities across language, culture and law – these similarities combined with close geographic proximity have led to the development of a strong corporate relationship between the two territories, at the centre of which are UK and Irish employees. Brexit will have a significant impact on this relationship and will introduce many HR challenges for the organisations involved.

Financial markets have lost significant value, and the key question for sponsors of pension schemes is how their schemes’ governance structures are going to perform. Geopolitical risks will continue to have an effect, as the fallout of the Brexit decision is felt internationally and the upcoming US election looms in November. Sponsors need to be confident that their risk management capability is appropriate for the level of risk that pensions represents to their business. The financial market impacts will have increased typical defined benefit deficits and worsened the projected outcomes for defined contribution savers.

The UK had the highest number of PPSN allocations in 2014, and has continued to account for the highest number of allocations by country since 2009. (CSO)

Approximately 60,000 people moved from Ireland to the UK between 2011 and 2013.

Simulating the effect of an inflow of 60,000 labour force participants in Ireland illustrates that wages in Ireland would fall by almost 4%.

In 2011 almost 400,000 people who were born in the Republic of Ireland were resident in the UK, while almost 230,000 British-born people were resident in Ireland.
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<th>Issue</th>
<th>Why we’re interested</th>
<th>Impact</th>
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<tr>
<td><strong>Workforce Mobility</strong></td>
<td>There are a number of Large Multinational Firms currently operating in the Ireland who are widely known for the mobility of their workforce throughout the EU.</td>
<td>Brexit may lead to Multinational Firms currently operating in Ireland with close ties to their UK operations being faced with the requirement for work permit and visa documentation.</td>
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<td><strong>Border Restrictions</strong></td>
<td>ESRI reports indicate an increase in the net flows from Ireland to the UK when the Irish unemployment rate exceeds the UK rate. This is an important outlet for the Irish labour market</td>
<td>Restrictions on movement of labour, may impact the current employment balance between Ireland North and South.</td>
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<td><strong>Pension Schemes</strong></td>
<td>UK employees temporarily working and subject to tax in Ireland, who continue to be members of a UK pension plan, can get tax relief on pension contributions. Employer contributions are not subject to Benefit-in-Kind.</td>
<td>The Ireland/UK Double Taxation agreement could still be in place to ensure that reliefs remain available. The potential for varying legislation between the EU and the UK, Brexit could result in a reduction in the availability of cross border pension schemes or a complete cessation of such schemes.</td>
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<td><strong>Social Security</strong></td>
<td>UK nationals would fall outside the EU Regulations governing the payment of social security liabilities whilst working in Ireland. However, they should (by default) be covered under the old bilateral Social Security Agreement between Ireland and the UK which currently covers regions of the UK (e.g. Isle of Man) not covered by the EU regulations.</td>
<td>Limited impact</td>
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Industry View – Financial Services
The financial services environment will becoming more complex post-Brexit

UK is currently the largest financial hub in the EU, accounting for 22% of European financial services sector activity, and 40% of EU financial services exports to the rest of the world. Subject to adherence to the Single Market Directive, banks, insurers and investment companies authorised in a European Economic Area ("EEA") country are entitled to carry out permitted activities in other EEA states by exercising the right of establishment via a branch or cross-border services, without further authorisation requirements. This is known as passporting.

Ireland competes with the UK for Foreign Direct Investment (FDI) in financial services. London is ranked number 1 financial centre globally. Ireland is ranked 39th.

Speculation exists that the current Brexit scenario may be advantageous to the Irish Financial sector as it may see foreign financial institutions and UK financial institutions seeking a base with 'passporting' rights. Ireland will face stiff competition for this additional investment from other European Financial Centres.

The current Brexit scenario also presents a number of challenges and opportunities to the Irish Financial sector and these are highlighted below.

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<td><strong>Trade</strong></td>
<td>21% of total Irish bank assets are in the UK (€64bn). The UK has also been a traditional point of access for capital and funding.</td>
<td>Brexit could lead to capital and currency controls that may impact this model.</td>
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<tr>
<td><strong>Passporting</strong></td>
<td>Passporting allows UK Financial Institutions to operate across Europe. Brexit may impact London’s position as a major financial hub.</td>
<td>Companies looking for a base to serve the European market may consider investment in Ireland. Infrastructural issues may hamper Ireland’s competitiveness (ref: National Competitiveness Council)</td>
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<td><strong>Regulation</strong></td>
<td>The UK and Ireland have a common regulatory framework which is based on EU law.</td>
<td>Brexit could see local regulation being developed in the UK. Similarly, UK FI’s operating in Ireland may be subject to separate EU regulation. This would increase cost and complexity.</td>
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<tr>
<td><strong>Corporate Structures</strong></td>
<td>Existing business and corporate structures may need to be adapted in order to maintain access to relevant markets.</td>
<td>Companies will have to identify where and by which group entity regulated activities are conducted in each of the relevant countries. Companies may wish to avail of current EU rules to transfer businesses/portfolios</td>
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<tr>
<td><strong>Material Transactions</strong></td>
<td>Businesses considering material transactions such as M&amp;A’s</td>
<td>Companies should ensure that Brexit is considered as part of due diligence and that the effect of contractual provisions such as MAC (material adverse change) clauses, termination triggers and illegality provisions in a Brexit scenario are understood.</td>
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<td><strong>Common areas of interest e.g. FTT</strong></td>
<td>The UK and Ireland have often taken a common position on issues as both countries are economically liberal.</td>
<td>Brexit may leave Ireland increasingly isolated in some of these discussions and may ease the passage for new legislation such as the Financial Transactions Tax (FTT)</td>
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Industry View – Agri-food
Irish agri-food sector strategies will need to be flexible as the future UK/EU relationship develops

The Irish economy has become increasingly less reliant on the UK in recent years with 14% of Irish agri-food exports destined for the UK and 26% of Irish imports sourced from the UK in 2015.

The ultimate impact of a Brexit on Ireland’s agri-food industry will depend on the UK’s agreed trade relationship with the EU, as well as future UK agricultural policy. The most desirable outcome would involve a Free Trade Agreement, otherwise, trade between the UK and EU would be governed by the WTO and result in the imposition of Most Favoured Nations tariffs.

A recent Teagasc publication produced a number of agri-food trade impact scenarios that look at the potential decrease in Irish agri-food exports to the UK and the subsequent lower value of diverted exports. The results show that the negative impact of a Brexit on the Irish agri-food exports could range from €150m - €800m (1.4% - 7%) per annum.

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<td><strong>Exports</strong></td>
<td>Irish exports of agricultural produce to the UK in 2014 totaled €4.5bn</td>
<td>A free-trade agreement could reduce the negative trade impact</td>
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<td><strong>The UK Market for Irish agri-products</strong></td>
<td>The UK relies heavily on Ireland as a source of beef and dairy products: - 50% of UK butter imports in 2014 - 28% of UK cheese imports - 54% UK frozen beef imports - 70% of UK fresh and chilled beef</td>
<td>Trade barriers, if imposed, will change the competitive landscape. This may lead to the UK choosing other trade partners which may impact the Irish agri market negatively if alternative markets can’t be found</td>
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<td><strong>Imports to Ireland</strong></td>
<td>Irish imports of UK agri-food products amounted to €4.1bn in 2014</td>
<td>Import barriers as part of a trade agreement could raise the cost of imports. Shortfall could be met in the medium term by Irish indigenous producers</td>
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<td><strong>CAP</strong></td>
<td>Irish farmers remain reliant on EU funding through the Common Agriculture Policy of which the UK is a net contributor</td>
<td>The UK’s net contribution to CAP in 2014 after a rebate is applied was €1.27bn out of a total budget of €54bn</td>
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<td><strong>Currency Volatility</strong></td>
<td>The Irish economy is already starting to experience the shockwaves of the UK’s Brexit decision. The immediate weakening of Sterling has been the catalyst for some initial trading fluctuations which has a knock on effect in these sectors</td>
<td>The cost of imported UK goods into Ireland reduces as Sterling becomes weaker. Retailers will feel pressure to pass the lower cost benefit through to the end consumer. Irish brands may suffer due to more competitive UK competitors. Irish exports are now more expensive for UK importers.</td>
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<tr>
<td><strong>Strategy</strong></td>
<td>The UK is simply too large a market for Irish food and drink exporters to risk losing share. Consumer tastes are very similar and packaging requirements are the same as English is our shared language. In the short term, it is critical to leverage the strength of these relationships in order to ensure that the current levels of uncertainty can be navigated.</td>
<td>Longer term, as the UK’s future trading relationship with the EU begins to emerge, companies will need to review their competitive positions, including the shifting of purchasing from Eurozone suppliers towards the UK and reviewing the feasibility of opening UK-based production plants in order to increase competitiveness</td>
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Industry View – Energy
The UK and Ireland energy markets are tightly interdependent

Ireland and the UK are part of an increasingly integrated European market for electricity and gas. The move towards a single market for energy and the Energy Union brings benefits for all members such as increased security of supply at reduced cost. Current arrangements are unlikely to undergo changes in the short term as this would require significant change to UK legislation and policy.

A significant portion of Ireland’s primary energy products are imported from the UK and therefore the imposition of tariffs would have a significant impact on the Irish economy. The likelihood of this taking place is however low. Norway, Switzerland and Russia are examples of non EU member states that are integral to the EU’s energy markets and do not face the imposition of tariffs. Funding of interconnectors with Great Britain or Northern Ireland will be a challenge and there will be a greater focus on interconnection with countries such as France.

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<td>Market Efficiency</td>
<td>Ireland is a net importer of electricity from Britain while Northern Ireland is a net importer of electricity from Ireland</td>
<td>The UK market’s independence of the EU market would reduce the efficiency of the Irish market and leave it vulnerable to issues faced solely by the UK market.</td>
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<tr>
<td>Security of Supply</td>
<td>Ireland relies on EU regulatory measures to deal with a possible crisis situation in the case of a gas or oil shortage which the UK would no longer be subject to</td>
<td>Difficulty in accessing sufficient supply of gas and the Irish oil supply stored in the UK during times of emergency e.g. access to 90 day emergency reserve.</td>
</tr>
<tr>
<td>Regulation</td>
<td>The island of Ireland has a common electricity market overseen by a joint regulatory committee that implement EU regulation.</td>
<td>The UK and NI regulators would no longer be subject to European regulation complicating Ireland’s ability to enact required regulation and putting the plan for a revised electricity market at risk.</td>
</tr>
<tr>
<td>Climate Change Policy</td>
<td>The UK would no longer be subject to EU rules on climate change policy and renewables.</td>
<td>The UK could adopt a wholly different approach to mitigating climate change, creating additional distortions between the two energy markets.</td>
</tr>
</tbody>
</table>
Industry View – FinTech & Digital
Brexit may create more tailwinds than headwinds for the Irish FinTech and Digital sectors

The potential impact of Brexit has yet to be determined for the FinTech and Digital sectors in Ireland and globally, but there are a number of areas which will need a watchful eye over the coming months.

The UK, and London in particular, has successfully positioned itself as an attractive location for scaling UK or inbound FinTechs. The cross-over between global financial institutions located there, the access to talent, funding and the flexible and favourable regulatory regime for FinTechs has developed London’s reputation as a global hub.

The referendum result casts some doubt over whether these attractions will have as much drawing power in the medium term. This uncertainty and confusion risks damaging Europe’s overall competitiveness in this market compared to North America and the far east. Additionally, there are potential impacts on people mobility as outlined in our People and Mobility section above.

A much more complex factor is data protection. Earlier this year, the European Parliament approved new global data protection regulations which come into effect in 2018. Additionally, the European Commission and the US Department of Commerce reached an agreement on a new transatlantic data flow framework to replace the defunct Safe Harbor programme.

It is expected that these arrangements will face a series of challenges along the path to implementation. By being divorced from the European bargaining table, the UK will be placing itself at a disadvantage in this very important area for the industry, and the flow of data and its corresponding security could be impacted as a result.

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<tr>
<th>Issue</th>
<th>Why we’re interested</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Talent</td>
<td>The industry has a demand for skilled labour that is well in excess of supply. For technology teams based in the UK, any restriction on the free movement of labour will hinder their ability to hire key talent.</td>
<td>This creates an opportunity for Ireland as the only English-speaking location within the European Union.</td>
</tr>
<tr>
<td>Regulation</td>
<td>The UK has had a very flexible and favourable regulatory regime for FinTechs which could be impacted by Brexit.</td>
<td>This also creates an opportunity for Ireland to open its doors to becoming the new Global Hub.</td>
</tr>
<tr>
<td>Data Protection</td>
<td>The European Parliament approved new global data protection regulations which come into effect in 2018. The EU and the US Department of Commerce agreed a new data flow framework.</td>
<td>These new arrangements will face a series of challenges. UK will be at a disadvantage due to Brexit as it will be excluded from the bargaining table. This will have implications for the industry in the UK due to the flow of data and data security being impacted. This can be seen as another opportunity for Ireland.</td>
</tr>
</tbody>
</table>
Industry View – Pharma
The Leave decision is expected to have an effect on regulation and the supply chain in the pharma industry

While the post-Brexit landscape is still evolving, some of the impacts of the referendum decision on the Pharmaceutical and Life Sciences industry are beginning to emerge.

Transactions between the UK, Ireland and the EU will need to be considered from both a customs duty and import VAT perspective. Duty could represent a real cost for businesses with import VAT having associated cash flow implications.

The biggest concerns that we’re hearing from clients in the industry are in relation to supply chain, impact on regulation and cross border research funding.

In the immediate aftermath of Brexit, we recommend that companies begin to map the areas of their business which are impacted by Brexit and drill down to understand the potential issues arising in each business unit.

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<td><strong>Regulation</strong></td>
<td>A change in location for the European Medicines Agency and increased uncertainty in the regulatory approval process in Europe.</td>
<td>Both of these factors may result in a longer lead time for products to market across the EU.</td>
</tr>
<tr>
<td><strong>Supply Chain</strong></td>
<td>Irish Relationship with suppliers, finishing plants, distribution hubs and third party customers will all need to be examined. Transactions between the UK and Ireland and the EU will need to be considered from both a customs duty and import VAT perspective.</td>
<td>Duty could represent a real cost for businesses with import VAT having associated cash flow implications.</td>
</tr>
<tr>
<td><strong>Cross-border Research Funding</strong></td>
<td>The type of exit package which is negotiated between the UK and the EU will determine the level of future funding from the UK in the Irish Pharma Industry.</td>
<td>Cross-border research funding and collaboration may be at risk in the medium to long-term.</td>
</tr>
</tbody>
</table>
Brexit - The implications for Irish business
Now that the possibility of the UK leaving the European Union is a reality, we want to assure you that despite the uncertainty and disruption, we have solutions that can mitigate risk. At PwC, we have been working on scenario planning for Brexit over the last number of months with industry experts, economists, clients and senior government officials.

Our Brexit taskforce are ready to work with you to ensure that across every aspect of your organisation, risks are mitigated and opportunities maximised. Our experts can help you protect your business and tap into areas of potential growth.

We are here to support you in these uncertain times. Ireland has come through tough times before and we will help you thrive in the new European landscape. Contact us, and let’s talk about the future of your business.

Stay up to date online at www.pwc.ie/brexit or @pwcireland on Twitter
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**Page 3**

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Page 15
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Page 18
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Page 20
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Page 22


Page 24

Source: PWC Advisory Practice
Exiting the EU is far from a straightforward process and the outcomes are unclear: UK policymakers will have to balance the costs between the level of access to the Single Market and freedom from EU regulations and budgetary contributions.

The ‘Leave’ vote may have significant knock-on consequences for the UK and the EU. Scotland could call for a second Referendum to exit the UK. Other EU member states may call their own referenda on EU membership.

Once the UK leaves the EU there is no obligation on the EU to conclude a trade deal with it. The UK would also have to negotiate trade agreements with its other main trading partners — it would not inherit the EU’s existing bilateral trade deals. This will take time. The UK has not single-handedly negotiated a trade deal in the past 40 years.

Brexit is a process that will take years, not a single act. The levels of integration have gone so far that a UK departure will have profound legal, economic, social and political implications irrespective of the type of agreement reached.

There is a spectrum of ranges for the impact of exiting the EU on the UK economy. The think tank, Open Europe, suggests the impact could range between +1.6% and -2.2% of 2030 GDP relative to baseline, the UK Treasury is suggesting -3.8% to -9.5%.

45% of UK exports go to the EU. However, the UK accounts for only 10% of the EU’s imports. The UK runs a trade deficit with the EU (£66bn) and an overall net deficit. This masks a substantial surplus in services (£10bn) and a surplus in Financial Services (£20bn) so the evidence is mixed on who needs whom in terms of export markets.

The UK is by far the biggest recipient of foreign investment in the EU. Almost half of FDI in the UK originates from the EU. The future of this investment may now be uncertain.

London is the #1 financial services centre, globally. Frankfurt is its main rival in Europe, but ranks #14 globally. The position of London as Europe’s biggest international financial centre is unlikely to change overnight. However, the loss of EU market access via passporting would have a significant impact on the UK financial services sector. Moreover, if some of the above issues materialise then critical mass in the industry could be gradually lost, harming its current status.

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8 things you need to know after Brexit

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www.pwc.ie/brexit

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