Invitation to Oireachtas Committee on Jobs, Enterprise and Innovation Meeting concerning Brexit

ISME is grateful for the opportunity to present its views to the Committee on the implications of Brexit. The British decision to exit the Union is a historic one, with immediate practical and commercial impacts, and others which are not discernible at present but which will emerge in time. For ease of discussion, we have grouped these issues in terms of their immediacy of impact; whether short, medium, or long-term.

SHORT TERM IMPACTS

Currency and Credit:

The proximate impact of Brexit is the weakening of Sterling. In the short term, this is creating a working capital shock for SMEs. While we have been appraised by DJEI of the EU Commission's strict views of what constitutes state aid in this regard, we require creative approaches from Government in cushioning this shock.

We ask the Committee to remember that access to credit and working capital has been a perennial issue for the SME sector. Brexit has simply compounded an existing problem. We therefore request that banks are pressured to deliver finance packages for exporting companies. These packages need to come without a litany of preconditions and covenants. Is the Government willing to consider a successor to the ICC/ACC?

Are the long-term prospects for Sterling as a weak reserve currency? If so, Ireland will have to reconsider the entire basis of its trade relationship with the UK. If current trends continue, Ireland will have to reduce the cost base of its agri-food sector by 10-15%. Ireland must work up contingency plans accommodating Euro-Sterling parity, and beyond.

Competitiveness: Property costs, rents, legal costs, and costs of finance.

Whether the 'social partners' are willing to acknowledge this issue or not, domestic competitiveness will become an even more important issue for SMEs.

We cannot tolerate a situation where our public sector pay-bill gets out of control again. Aside from the implications for the national fiscal position, public wages are also a significant driver of CPI via state-provided services (health, education, transport). Even if it is at the expense of serious political and industrial unrest, the Government cannot yield on this issue.

In the same way in which Social Partnership in the 80's sought wage moderation in return for tax decreases, we must now seek pay moderation in exchange for the Government forcing through reductions in the costs of living they can control: health, education, transport, energy, water, waste, and insurance. The cost and competitiveness issue has never gone away; however it is more important than ever before that we recognise it now. We face the prospect of a rampant UK, unbound by state aid or workers' rights legislation, competing against our indigenous enterprises.

While substantially ignored in the past, now is the time to review and execute the three key challenges of the National Competitiveness Council: Costs of doing Business; the Competitiveness Challenge; and the Competitiveness Scorecard. ISME believes the key NCC report recommendations should be actioned using the Action Plan for Jobs process, with explicit, clear responsibilities and timelines.

Table 1 below shows the decline in our competitiveness since the 2000's on most indices.

Table 1: Ireland's Competitiveness Ranking:

Year	IMD	WEF	World Bank
2016	7	24	17
2015	16	25	13
2014	15	28	15
2013	17	27	15
2012	20	29	16
2011	24	29	9
2010	21	29	8
2009	19	25	7
2008	12	22	8
2007	14	22	10
2006	11	21	n/a
2005	12	21	n/a
2004	10	30	n/a
2003	11	30	n/a
2002	9	23	n/a
2001	7	11	n/a
2000	7	5	n/a
Note	1	2	3

Note 1: IMD = Swiss Business School
Note 2: WEF = World Economic Forum
Note 3: World Bank
Source: above references for their International Competitiveness rankings.

ISME notes with concern the recent announcement that Nissan will continue with car production in Sunderland. This has been erroneously interpreted as British intent to remain within the Customs Union. Alternatively, it could involve a commitment by the UK to cover any tariff imposition on Nissan; a state aid which would no longer be illegal for the UK if it was no longer in the Union.

MEDIUM TERM IMPACTS

'Social Chapter' legislation:

If, as appears increasingly likely, the UK opts for a hard exit, out of the EEA, EFTA and Customs Union, it will no longer be bound by the social chapter legislation. While EU regulations would still govern international trucking movements, UK employers would not be bound by the maxima imposed in the working time directive. What rules will be kept, and what will be scrapped by the post-Brexit UK? Will international hauliers have to learn two set of rules, one for when their trucks are in the UK and another for when they are in the EU?

All public representatives will need to be able to explain in simple terms to their electorate why the public sector pay demands are unrealistic, and simply cannot be met. If the political classes are unable to do this, we are inevitably heading back towards a period of rapid expenditure growth in the public sector, as we had in the early 2000's. This is unsustainable. Citizens must be helped to understand why. That duty falls on you.

Market Access:

The UK's trade deal with the EU will apply to Ireland in reciprocal. This is an area where Ireland may not share a common set of objectives with our EU partners who will negotiate the deal. Our trade dependence on the UK is materially different to that of our EU partners. Ireland will need to set a cogent, defensible set of requirements it expects the EU to negotiate with the UK ahead of a deal.

However, many businesses don't have ready alternative markets, and so will need a healthy (and potentially deeper) trading relationship with the UK.

Border Controls:

The manner in which border control is exercised will have many impacts:

- Reciprocal transport arrangements across the Ireland/NI border.
- Air and sea transit between Ireland and the UK.
- Transit through NI for Donegal traffic accessing ports in the State.
- Ireland must ensure that, as far as possible, land-bridging through GB for continental traffic is not impeded, made prohibitively expensive, or administratively challenging. The Rosslare-Cherbourg route is not a cost-effective option for freight passage to Northern Europe.
- Ireland must require that the UK adequately resources the management of cross-border traffic at their ports and airports.
- We must ensure that access to long-haul air-freight routes ex-Heathrow are not impeded.

Customs:

What tariffs, guarantees and clearance procedures will be required of exporters and importers? These will decide how well the new trade works in practice for supply chain managers and shippers. Regarding tariffs, we must ensure that administration of these is quick, simple, and not administratively burdensome. Otherwise trade which might be zero-rated for tariff purposes could prove almost as uneconomic as tariffed trade.

Action Plan for Jobs:

This plan has been materially affected by the Brexit decision. It is incumbent on the DJEI to review the plan in light of the British decision. We ask the Committee to request that this is done, and to require that a revised Action Plan for Jobs is 'Brexit-proofed.'

LONG TERM IMPACTS

Foreign Direct Investment:

FDI in Ireland is threatened as it has not been threatened before. The Telesis and Culliton Reports emphasised the need to pivot away from FDI, and to improve indigenous industry. It is arguable that these reports have not been followed through. OECD discussions on BEPS, and EU discussions on a CCCTB may impact FDI sector in the longer term, so we must plan strategically to defend that eventuality. Ireland is facing a huge challenge to the industrial policy it has followed since the fifties. Now is an appropriate time for a reform of our enterprise policy structures, and a definitive expression of our strategy to 2050. In our view, this strategy must explicitly address the SME sector, and identify those sectors which are ripe to scale.

Aggressive intent to exploit available opportunities:

Lastly, while we acknowledge the long-standing and hard-won trading relationships and advantages we have built up with the UK over the decades, we must not only be ready to deal with a material deterioration in these; we must be ready to exploit any opportunities that arise where FDI and MNCs can be attracted to Ireland. In our submissions to the Action Plan for Jobs, we suggested linkages between MNCs and SMEs which would be advantageous to both. We believe this proposal is even more important now. SMEs view the possibility of itinerant MNCs exiting the UK as a potentially huge customer base. We must be prepared to put Ireland first, and ruthlessly exploit such opportunities.

Management of the exit:

There has been much debate about whether there should be a 'Brexit Minister.' For small businesses, the point is irrelevant. The important issue is that a single department takes a lead in the management of all Brexit-related issues. In default of this happening, SMEs will be forced to rehash the same issues with DJEI, Finance, DFAT, DPER, DSP, DTTAS, and DAFM. It is important to centrally establish and coordinate some clear work-streams for the various Departments which will handle a Brexit impact.