PwC Ireland urges Irish family businesses to intensify plans for no-deal Brexit

Jennifer Hawkins, International Trade, PwC, and Owen McFeely, Consulting Director, PwC take a close look at the uncertainties that lie ahead for Brexit. A no-deal Brexit in March 2019 will bring certain challenges for Irish businesses, and in this article they provide clear guidance on how to face them.

Following the postponement of the vote by the UK Parliament on Theresa May's proposed Brexit deal along with Wednesday's no-confidence vote albeit allowing May remain as leader of the Conservative party, the situation for all Irish family businesses remains uncertain. Regardless of what additional assurances Mrs May might seek to secure from European Leaders on the Backstop, EU President, Donald Tusk, has said 'the deal will not be renegotiated'.

As a result of this political uncertainty, there is a growing risk of a disorderly exit by the UK from the EU at end March 2019. Much research has indicated that a no-deal scenario would have grave consequences for Ireland in terms of economic growth and jobs.

While the vote may be delayed, it is certain that 29 March 2019 is approaching fast and, if a deal is not achieved, the UK will exit the EU, with World Trade Organization rules applying.

The current draft Brexit deal would allow for a transition period to take effect. This would provide 21 months of certainty (with possibility of extension to end of 2022) and allow trade between Ireland and the UK to operate largely as per current the status quo and, most importantly, would allow businesses to plan short-term future investment with certainty.

However, as events have unfolded and with such political uncertainty in the UK, we certainly cannot assume a deal will be achieved. Uncertainty is intensifying and we continue to advise clients to plan on the basis of a no-deal Brexit and the worst case scenario whilst hoping for a better outcome (i.e. plan for WTO terms).

Last week, the UK made public the WTO terms of trade that it will apply post-Brexit in the form its draft WTO “schedules” on goods and services. These are key for planning, or for confirming planning assumptions previously made, and business should familiarise themselves with the WTO terms.

A recent Poll by PwC Ireland taken at its Annual Business Forum on 21 November highlighted that business leaders are fully aware of the consequences of a deal not being agreed on time. The Poll revealed that the biggest concern associated with the draft Withdrawal Agreement not being agreed by 29 March 2019 is supply chain disruption including the cost of new sources of supply (24%). Other concerns include: reduced economic growth and loss of jobs (23%); the possibility of a hard border in Northern Ireland (17%); chaos and delays at borders (13%) and a higher cost of doing business due to tariffs/administration etc (13%).

Positive Implications

The Poll further revealed some positives for Ireland as a result of Brexit. Increased FDI based on Ireland being a gateway to the EU was seen as the greatest opportunity for Ireland in a post-Brexit world (70%). This was followed by future growth opportunities for our financial services industry (58%) and Ireland playing a more prominent role within the EU (51%). One in four (23%) see opportunities for greater diversification of markets and suppliers.

Review business models

Brexit adds cost and complexity to supply routes that have tied Ireland to Britain for decades. Changing these supply routes will add cost or may not be possible due to limited ability to change current infrastructure such as existing ferry crossing networks, border inspection posts, etc. Brexit poses a real challenge to businesses as tariffs and non-tariff barriers drive cost.

With heightened uncertainty, Irish businesses that are trading with the UK, should immediately review their supply chains with a view, where appropriate, to sourcing alternative options and/or seeking alternative markets for product. Currency volatility, tariffs and non-tariff costs (such as customs and regulatory compliance costs) will also challenge family businesses trading with the UK. Understanding the potential impact of these new costs on product margins is critical.

In addition to identifying additional cost drivers, understanding day one readiness is also critical (i.e. minimum customs and regulatory registrations and facilities needed to keep product moving across borders).

In order for product to move between Irish and UK markets, businesses need to understand and comply with all new customs and other regulatory processes. Many have never dealt with third status countries before therefore making this a real challenge. Similarly, if using the UK land bridge for import or export purposes, ensuring this can continue to operate smoothly post-Brexit is key.

Day 1 readiness critical/minimum actions simply to keep product moving (cost reduction aside) include: tariff and regulatory classification of products; ensuring regulatory certifications etc. will be available; EORI registration in the UK by UK entity in order to import into that territory; appropriate deferred payment facility will be of huge importance for cashflow; and the engagement of customs brokers to file declarations on behalf of the business.

Engagement with suppliers and customers about the division of compliance responsibilities post-29 March is critical; everyone in the value chain needs to be ready for Brexit. There is an interdependence and all parties must be able to live up to incoterms (delivery terms) agreed so that product flow is not disturbed.

Additional warehousing in Ireland may also be a consideration. Opening a UK base may also ease some logistical issues to deal with customers and suppliers there. The response required depends the business model and supply chain.

In summary, a no-deal Brexit in March 2019 would seriously disrupt trade between Ireland and the UK resulting in a likely negative impact on Ireland's economy but preparedness can (partly) mitigate this. And with increased volatility in global markets, the current developments are unhelpful for business. There is limited time left for businesses to start planning for Brexit including the development of contingency plans. With a little more than 100 days until March 29 2019, doing nothing is not an option.