CHAMBERS IRELAND
IN BUSINESS FOR BUSINESS

"Brexit"

The UK Referendum on EU Membership

Update for Chambers

24th June 2016

The Result:

The UK public have voted to **LEAVE** the European Union

What happens next?

Following the UK's vote yesterday to exit the European Union, we are left with a large degree of uncertainty on what will now follow. However, there are a few things we know that will and won't happen in the aftermath of the result.

In the immediate term, we can expect some degree of **currency fluctuation in Sterling and possibly other currencies**, so businesses with exposure to Sterling should consider how they will manage this. There may also be some **market volatility** with knock-on **consequences for investments and pensions** and it is unclear how long this period of uncertainty will last.

However, it is important to highlight that there should be no immediate impact as negotiations for a UK exit from the European Union are likely to take a considerable amount of time. For example, pending the outcome of any negotiations there will be **no introduction of tariffs** and there will be **no immediate introduction of a hard border** between the Republic of Ireland and Northern Ireland. Free movement of people should also not be impacted in the immediate aftermath.

The UK is Ireland's largest single trading partner in Europe and ranks second to the USA in terms of global export markets. However, the share of Irish exports (goods and services) to the UK has fallen from 55% to 17% over the last 40 years. 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.[1] The EU bloc (excluding the UK) is the largest trading partner of the Ireland, and accounts for more than twice the volume of Irish merchandise exports to the USA. Irish exporters should look to building on already strong links with US and EU markets in the months and years to come to account for any disruption to trade links with the United Kingdom.

Path for UK leaving and Impact on the EU

The UK's vote to leave the EU now requires the application of Article 50 of the Lisbon Treaty. This will involve the UK notifying the European Council of its intention to leave the Union, following parliamentary approval for such an act. Article 50, when applied,

[1] https://www.pwc.ie/media-centre/assets/publications/2016-pwc-ireland-brexit-booklet.pdf

provides that the EU will negotiate a new agreement with the withdrawing country over two years. While the two year period can be extended by unanimous agreement, Article 50 also specifies that, when agreeing a new deal the EU acts without the involvement of the country that is leaving, meaning Britain would have little or no say in the relationship it is offered by the remaining 27 member states.

While the referendum result itself is not legally binding, it would be seen as highly unlikely that Parliament would ignore the wishes of the electorate by either refusing to make the application to withdraw or significantly delaying said application. It is unclear if the British government will apply to withdraw immediately following the Referendum result or if they will opt to wait for a number of months in order to negotiate the terms of exit with the European Union before they trigger the article 50.

The overall impact of the result on the EU at this point is hard to quantify. The decision of the UK to leave the EU will likely have a negative impact of the dynamic of the Union. Some of the tensions that exist within the UK also exist in other Member States, such as France.

It is also unclear how willing to negotiate other Member States will be when it comes to making deal on favourable terms of exit with the UK. The incentive for the EU will be to discourage other countries from following on the same path. For example, on the 9th May 2016, Ipsos-MORI published a poll that states nearly half of Europeans want a vote on EU membership. 45% of more than 6,000 people surveyed in Belgium, France, Germany, Hungary, Italy, Poland, Spain and Sweden said they wanted their own vote, and a third would opt to leave the EU if given the chance.

What kind of deal is possible?

The hope of those advocating a Leave vote in the UK referendum would be that the UK could go on to form a relationship with the EU similar to the relationship already in place between other countries outside the EU, including Switzerland, Norway, Iceland and Liechtenstein. These countries have formed a **European Free Trade Association ('EFTA')** for the promotion of free trade and economic integration. Norway, Iceland and Liechtenstein have a joint European Economic Area ('EEA') Agreement with the EU while Switzerland has signed a set of bilateral agreements with the EU. However, this path is far from certain. Even if the UK were to remain a full part of the single market, it would have to accept EU regulations without any influence in setting them. It would still have to pay for access to that market, as does Norway, and could not deregulate any more that it can today.

Additionally, while the UK, would have more freedom and control over making trade agreements, it is likely that it would struggle to negotiate the same access for goods and services as it currently has under existing EU free trade agreements. US President Barack Obama has already stated that the US would not be interested in negotiating a trade deal with the UK separate to the Transatlantic Trade and Investment Partnership. Japanese Prime Minister Shinzo Abe has also gone on the record stating the UK would be less attractive to Japanese investors should an exit from the EU take place.

A report from Global Counsel on the impact of a Brexit on the EU and the UK, outlines five distinct models that may define future relationship with the EU should the UK choose to leave. *(See table below)*

Norwegian-style EEA agreement	The UK joins the European Economic Area and maintains full access to the single market, but must adopt EU standards and regulations with little influence over these. The UK still makes a substantial contribution to the EU budget and is unable to impose immigration restrictions. **Verdict: does not address UK political problems with the EU**
Turkish-style customs union	Internal tariff barriers are avoided, with the UK adopting many EU product market regulations, but sector coverage of the customs union is incomplete. The UK is required to implement EU external tariffs, without influence or guaranteed access to third markets. **Verdict: a bad compromise for the UK**
FTA-based approach	The UK is free to agree FTAs independently and the UK's relationship with the EU is itself governed by an FTA. Tariff barriers are unlikely, but as with all FTAs the UK will need to trade off depth - which means agreeing common standards and regulation - with independence. **Verdict: possible, but it all depends on the deal**
Swiss-style bilateral accords	The UK and the EU agree a set of bilateral accords which govern UK access to the single market in specific sectors. Concern in Brussels about cherry picking may limit the sectors. The UK becomes a follower of regulation in the sectors covered, but negotiates FTAs separately. **Verdict: possible, but may not be attractive to the EU**
MFN-based approach	No need to agree common standards and regulation, but at the expense of facing the EU's common external tariff, which damages UK trade with the EU in goods as well as services. Non-tariff barriers may emerge over time to damage trade in services in particular. **Verdict: inconsistent with the UK's liberal approach to trade**

What Can You Do

Businesses should begin a process of assessing the impact of Britain leaving the EU on their operations and develop a contingency framework to make any necessary adjustments over the coming years as the terms of a negotiated exit become clearer or to assist us in raising matters of which negotiating teams should be made aware or seek alternative solutions. Issues to consider may include:

1. Update generic contingency plans
2. Analysis of business models and differences arising if trading directly, using branch structure, commissionaire structure or UK subsidiary
3. Identify currency exposures
4. Analysis of business lines to identify potentially exposed offerings eg
    a. products & services which are typically liable to customs for non-EU trading
    b. products and services where regulatory environment may change
    c. impacts of changes in employment laws
    d. identify supply chain issues such as transport routes used for sales and purchases

Please engage with your local Chamber to highlight substantial areas of particular concern where we may be able to feed suggestions / commentary to the Government negotiators.

More Information:

For more information on the UK Referendum result, please contact Chambers Ireland directly or see the following resources;

MerrionStreet.ie

Institute of International and European Affairs

European Movement Ireland

British Irish Chamber of Commerce