

Brexit Customer Update

September 2020



As the path of Brexit enters its crucial final phase, this is the first in a series of updates designed to cover the latest developments, including currency markets and sector specific analysis on key sectors affected by Brexit such as Agriculture, Food & Drink and Manufacturing.

Latest News

Despite the latest round of negotiations taking place, the focus in recent days has been on the domestic legislation brought forward by the UK government. The Internal Markets Bill published on the 9th September is designed to override parts of the Withdrawal Agreement, specifically in relation to the Northern Ireland protocol, state aid and export declarations. UK Prime Minister Boris Johnson stated that a border down the Irish Sea would hurt UK interests and that a deal with the EU should be agreed by October 15th. The EU have responded to the Internal Markets Bill saying it would be a "serious violation" of the Withdrawal Agreement and have given the UK until the end of September to withdraw the draft legislation; at the same time, the latest round of formal Brexit negotiations also wrapped up.

From the EU perspective, Chief Negotiator Barnier has set a clear deadline of the end of October to get a deal agreed. The Level Playing Field (and in particular State Aid) remains a key stumbling block with the EU unwilling to allow UK firms gain a competitive advantage post Brexit.

Mr Barnier has repeatedly said that the EU have shown flexibility on the UK's 'Red Line' issues in an effort to find solutions however the UK have shown no compromise at all in talks so far. Meanwhile, UK Chief Negotiator David Frost said "challenging areas remain and the divergences on some are still significant".

Tensions continue to escalate, however, it is worth noting that the Internal Markets Bill will only be implemented in the case of No Deal and could be a negotiating tactic from the UK side. By breaking international law the UK would potentially be risking future trade deals with the EU and other countries. The next round of talks begins in late September with the EU Council Meeting on October 15/16th likely to be a pivotal period. While opinions differ on the time required to pass legislation, the most commonly held view is that the end of October to mid-November is the absolute latest a deal could be agreed and passed by both sides.

Currency Update

Euro/Sterling has risen by almost 5% in recent days and is trading at its highest levels in six months following the recent developments and the publication of the Internal Markets Bill. The currency pair had been trading in a narrow range between 0.8850 – 0.9150 in recent months following the sharp move to 95p back in March.

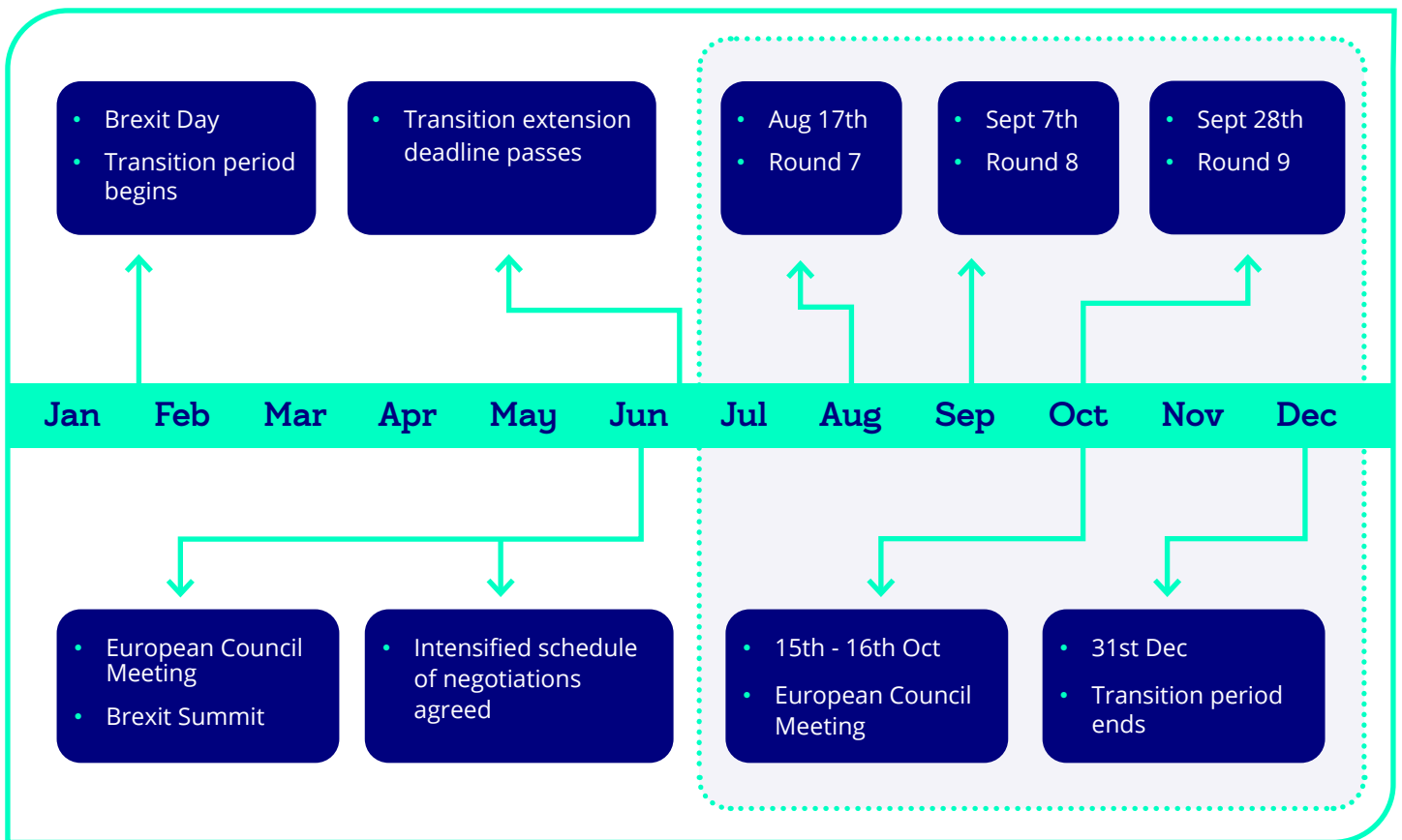
The post Brexit range of 83p-95p remains intact however given the EU's response to the Internal Markets Bill – an official request to withdraw the legislation – has so far been rejected by the UK, the upper end of that range may be tested in the coming weeks. Currency volatility is likely to remain elevated in the weeks ahead.

Euro/Sterling



Source: Bloomberg

Brexit Timeline 2020



Sector Analysis

– Agrifood & Manufacturing

The impact of a no-deal outcome to negotiations will be felt particularly in the food sector, both in Ireland and the UK. In August, a report was issued by the UK civil service highlighting the significant challenges the UK food chain would encounter in the event of no deal, particularly if it corresponded with a second virus outbreak. The report estimates that 40-70% of UK hauliers will not be ready for new customs procedures on January 1st, triggering a 45% drop in transit traffic via Dover for the first three months of transition. Representatives of the UK Food & Drink Federation highlighted fears that short dated produce would decay and be wasted in the event of a backlog of lorries in Kent. In addition, the British Retail Consortium has recently highlighted UK food prices would rise by an average of 20% in the event of a no-deal.

One of the key issues behind the recent UK legislation around the Northern Irish protocol was the issue of tariffs as they applied to exports from Britain to Northern Ireland. The EU wishes for products to attract tariffs as a norm; only if the business can prove that the particular product is not going south across the border, can it then receive a charge back. The UK wishes for the system to work in the opposite way. This problem becomes particularly acute in the case of supermarket deliveries from UK hubs to Northern Ireland,

as deliveries are made up of many individual products, each of which could require separate paperwork. Reports suggest that the UK wished for Ireland's support towards taking a "pragmatic view" of implementing the NI protocol, specifically as it relates to checking of goods deliveries from Supermarkets in Britain to NI. In return, it is suggested that the UK are offering to expedite Irish trucks using the landbridge. It is unlikely that the Irish government would depart from an EU27 approach to the negotiations. Landbridge access is crucial particularly to short dated products accessing the continent. While the UK has signed up to the common transit convention, industry remains unsure about the level of preparedness of UK ports to implement some of these procedures.

The government has intensified communications to businesses encouraging them to prepare for the end of the transition period, particularly in the area of the customs and logistics changes, which will happen regardless of the outcome of current negotiations. There is still a shortage of Irish based customs clearing agents and suitably qualified people to handle the increased volume of declarations that will be required from Jan 1st.

To that end, two new government programmes were announced on 9th Sept; the 'Ready for Customs' grant allowing €9,000 per relevant employee hired or redeployed to a dedicated customs role and the 'Clear Customs Online 2020' with free online customs training provided by Skillnet Ireland. A recent webinar delivered by Revenue urged businesses to examine their need for a comprehensive revenue guarantee, in advance of the end of the transition period. Should there be no free trade agreement, the guarantee will be necessary in order to use the simplified transit procedure for the landbridge, to defer import duties or to allow for temporary admission of goods, for example in the case of exhibition materials.

Reports from Brussels suggest that there has been no progress on fishing talks. The two largest UK fishing (catching not processing) organisations reaffirmed their support of the UK government stance. In turn, Mr. Barnier reaffirmed the need to protect the livelihoods of European fishermen and women, as well as the need to continue to protect natural resources. Despite the challenges ahead curtailing growth prospects for many food and drink SMEs, 62% of Love Irish Food members believe 2021 will be a better year for their businesses than 2020.

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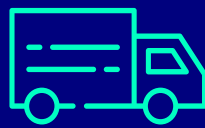
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