brexit centre of excellence

Brexit Briefing

No: 06 // JUNE 2018

Border Problem

The EU's chief negotiator, Michel Barnier visited the border region in May to listen and learn from people who live and work in the all-island economy.

"The consequences of Brexit should not and must not lead to the return of a hard border, neither on maps nor in minds," Mr Barnier told attendees at an All Ireland Civic Dialogue in Dundalk.

"That is why the EU made Ireland one of the three key priorities, with the citizens' rights and the financial settlement, right from the start of the negotiations. And this is why we insist on the need to have a backstop as part of the Withdrawal Agreement," Mr Barnier stated.

Commenting on the so-called 'backstop', he said that both sides in the negotiation are firmly committed to a backstop to avoid a hard border on the island of Ireland and that without a backstop, there can be no Withdrawal Agreement. While the EU does not want to have a hard border between Ireland and Northern Ireland, goods which enter Ireland also enter the Single Market and must therefore comply with the rules of the Single Market and the Union Customs Code.

"We are seeking practical and operational solutions to a complex problem. No more, no less … We are ready to look constructively at all options which allow us to meet our objectives - all options," Mr Barnier said.

While the EU continues to push for progress on finding a solution to the border problem before the end of June, to date, there are few signs of meaningful progress. At the time of writing, two working groups of UK cabinet ministers are understood to be considering proposals for a customs partnership model where the UK would collect tariffs on behalf of the EU and a so-called 'maximum facilitation' model that would rely on technology to minimise border checks. The prospects for these solutions are very uncertain as it appears that the EU is unlikely to agree to a 'partnership model' while technology-based solutions are unlikely to be ready on time. Political divisions also continue to impede progress. Pressure on the UK to develop proposals ahead of the next EU summit meeting on 28-29 June has intensified in recent weeks as there is a risk that if there is no solution to the border issue by October, there may be no withdrawal agreement which could mean no transition period.

Contingency Planning

If it materialises, the Brexit transition period will be helpful for businesses across the island of Ireland. However, PKF-FPM experience shows that many businesses remain concerned that policy makers are not giving enough attention to the practical implications of transition. Many businesses will only be able to prepare for Brexit once the details of the future relationship between the UK and EU, are known.

Nevertheless, most of the Irish companies recently surveyed by Ibec are actively engaged in Brexit planning. Despite ongoing uncertainty, over one in five companies (21%) have contingency plans in place, while over half (53%) will have plans in place over the coming months. The issues of most acute concern are customs and certification barriers (identified as top concern for 20% of companies), future regulatory divergence (13%), and exchange rate volatility (13%).

IntertradeIreland has published a report examining current cross-border trading patterns and the potential impacts of current EU WTO tariffs. The report contains tables which may help you project the likely impact on your business.

As discussed in Brexit Briefing 05, businesses will also need to keep in mind that post-Brexit the current method of zero-rating sales and the customer accounting for the VAT in Ireland and vice-versa will end. This will create a cash flow disadvantage for the customer and will be an administrative burden on suppliers as export documentation will be required.

Northern Ireland traders carrying out services in Ireland, such as construction, where the trader does a self supply of goods from their UK business to their Republic of Ireland site will encounter similar cashflow and administrative disadvantages.

At this stage, the better your planning, the better positioned your business will be come March 2019. We encourage you to seek further information and advice from PKF-FPM's Brexit Centre of Excellence. Support in the form of a £2k voucher (inclusive of VAT) is available from IntertradeIreland to help manufacturing and internationally tradable service businesses meet the costs of obtaining Brexit-related advice. The cost of the advice is invoiced directly to InterTradeIreland so there is zero cashflow impact on applicant businesses.

Future Framework

The UK and EU Brexit negotiating teams have jointly published a listing of the topics for discussions on the framework for the UK and EU future relationship post-Brexit. Among the topics included in a section on economic partnership are the aims of the economic partnership, goods, agricultural, food and fisheries products, customs, services and investment, financial services, digital and broadcasting, transport, energy, "horizontal measures" (level playing field), and mobility framework. A separate section on security deals with law enforcement; criminal justice; foreign policy; security and defence. The list of topics also includes data protection; cooperation on science and innovation/culture and education; and, fishing opportunities. The topics listed indicate the complexity that will be involved in building the future relationship.

Agreement on Citizens' Rights

The UK government has reached an agreement with the European Union on citizens' rights post-Brexit.

People who, by 31 December 2020, have been continuously and lawfully living in the UK for 5 years will be able to apply to stay indefinitely by getting 'settled status'. That means they will be free to live in the UK, have access to public funds and services and go on to apply for British citizenship.

People who arrive by 31 December 2020, but won't have been living in the UK lawfully for 5 years, will be able to apply to stay until they have reached the 5-year threshold. They can then also apply for settled status.

Family members who are living with, or join, EU citizens in the UK by 31 December 2020 will also be able to apply for settled status, usually after 5 years in the UK.

Close family members (spouses, civil and unmarried partners, dependent children and grandchildren, and dependent parents and grandparents) will be able to join EU citizens after exit, where the relationship existed on 31 December 2020.

EU citizens with settled status or temporary permission to stay will have the same access as they currently do to healthcare, pensions and other benefits in the UK.

As the rights of British and Irish citizens in each other's country are rooted in the Ireland Act 1949, Irish citizens won't need to apply for settled status or register.

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Is NI's Burgeoning Tech Scene Ready for Brexit?

The technology sector has made a significant contribution to Northern Ireland's growth and prosperity. Currently over 1,200 companies including 100 global technology leaders are based here. However, while the tech scene is thriving, are technology companies adequately prepared to face the following challenges posed by Brexit?

Any change in the regulatory environment between the UK and EU may result in the imposition of non-tariff barriers. These are likely to impact upon the market access into the EU.

Given the complex nature of many digital goods, new controls to import and export may have a significant effect on the digital goods trade, especially sourcing under the rules of origin requirements, given that many component parts are produced in the EU.

The UK is the largest data centre market in Europe and second only to the United States globally. There is a concern that Brexit could impact on the existing UK and EU data regulations and companies may need to change where their data is located.

Companies may be prevented from accessing EU funding for innovation post Brexit. Collaboration and the exchange of ideas between UK and EU researchers and innovators may also be affected.

Continued access to a highly skilled EU workforce and the ability to have a mobile workforce operating freely across the EU is another key concern.

The pound suffered heavily after the EU referendum. One of the most significant uncertainties faced by businesses across Northern Ireland continues to be the volatility of the foreign exchange markets.

Post Brexit, NI technology exporters did quite well given the fall in the value of pound sterling. Analysts have said that a hard Brexit may have an adverse impact on the UK economy as a whole and this will affect inward investment into the region.

Although the outcome of the ongoing negotiations between EU and UK are still uncertain, technology companies with cross-border trade should have contingency plans in place to address various Brexit scenarios.

Contact PKF-FPM's Brexit Centre of Excellence to request a comprehensive Brexit Action Plan for your business. Support in the form of a £2k voucher (inclusive of VAT) is available from IntertradeIreland to help eligible businesses meet the costs of obtaining Brexit-related advice.

Brexit Loans

The Strategic Banking Corporation of Ireland (SBCI) in partnership with the Department of Business Enterprise and Innovation, the Department of Agriculture Food and the Marine has launched a Brexit Loan Scheme. The loans are available through AIB, Bank of Ireland and Ulster Bank and are subject to the approval according to the banks' own credit policies and procedures.

Loan amounts of between €25,000 to €1.5m per eligible enterprise are available subject to certain terms and conditions. The maximum interest rate is 4% and loan terms range from 1—3 years.

Loans can be used for future working capital requirements or to fund innovation, change or adaptation of the business to mitigate the impact of Brexit.They cannot be used to refinance undertakings in financial difficulties or refinance of existing debt such as term loans, leases or hire purchases agreements.

For further information about eligibility and terms and conditions see sbci.gov.ie or contact PKF-FPM's Brexit Centre of Excellence.

Impact on Crime

In May 2018, the National Crime Agency published their national strategic assessment of serious and organised crime for 2018. The NCA says the result of the EU referendum vote has had little impact on criminal activity or international law enforcement cooperation to date, but it will be a key driver of uncertainty in the next five years.

"Criminals are not constrained by geographical or jurisdictional boundaries and are inherently opportunistic. We expect that many will strive to take advantage of the opportunities that Brexit might present, for example from the design and implementation of a new UK customs system or from increased challenges for EU and UK law enforcement in locating and extraditing international fugitives if the UK were to lose enforcement or intelligence sharing tools. However, some of the impacts of Brexit have the potential to work in favour of law enforcement, including greater discretion over the movement of goods and people," the report states.

Food Prices

A report on the potential impacts of Brexit on the price and availability of food for UK consumers was published by a House of Lords sub-committee on 10 May 2018. This report says that 30 percent of food eaten in the UK comes from the EU, and another 11 percent from non-EU countries under the terms of trade deals negotiated by the EU. Government hopes to negotiate a trade agreement to allow tariff-free and 'frictionless' imports of food to continue, however the sub-committee points out that this is by no means a guaranteed outcome.

Even in the 'best case scenario', with no tariffs and few customs barriers, international rules would oblige the UK to conduct more customs and borders checks than is currently the case. If an agreement cannot be negotiated, Brexit is likely to result in an average tariff on food imports of 22%.

"While this would not equate to a 22% increase in food prices for consumers, there can be no doubt that prices paid at the checkout would rise. To counteract this the Government could cut tariffs on all food imports, EU and non-EU, but this would pose a serious risk of undermining UK food producers who could not compete on price," the sub-committee report states.