

PRELIMINARY ASSESSMENT OF THE IMPLICATIONS OF BREXIT FOR THE LOGISTICS AND TRANSPORT SECTOR IN IRELAND

Introduction

The purpose of this note is to provide a very preliminary assessment of the implications of Brexit for the Irish logistics and transport industry. It is based on responses from members, an input from a number of invited experts, documents published by the Department of Finance as part of Budget 2017, a review of a range of online resources (including IBEC, Irish Exporters Association, UK Freight Transport Association and the Chamber of Shipping) and the outcome of a recent CILT(UK) meeting on Brexit.

The only thing that is certain at present is that there will be continuing uncertainty.

The Brexit Process

By now virtually everybody knows about Article 50. This provides the legal and procedural basis for a Member State to leave the EU. Some key points are:

- The UK Government has indicated that it will trigger the start of the Article 50 process before the end of March 2017.
- Article 50 sets down a two year period for the completion of exit negotiations. This period can only be extended with the unanimous agreement of the remaining 27 EU members. It is not a foregone conclusion that this period will be extended if required. Member States will wish to protect their own interests in the negotiations and any country dissatisfied with the tenor or content of the negotiations could block an extension of the period. This is unlikely but not impossible.
- The agreement negotiated under Article 50 must be approved by a qualified majority of Member States and the European Parliament. Such approval should not be taken for granted and the European Parliament, for example, may wish to exercise its muscle. It is also possible that a group of Member States with very different concerns could combine to block an agreement. The recent blocking by the Walloon regional parliament of the EU trade deal with Canada and the regular scrutiny of EU legislation by the German Constitutional Court show how complex the process can become.
- If there is no exit agreement, the UK will simply leave the EU. This would be very messy and highly undesirable.

- It is not clear if the UK will negotiate a trade agreement with the EU in parallel with the exit agreement. There are differing views on whether this is possible or desirable. It was done when Greenland left the EU but the UK exit is a much more significant and complex negotiation with much more at stake. From an Irish perspective, parallel negotiation of trade and exit agreements is a critical objective. However it may not be achievable. There is evidence of a hardening of the positions of some mainland European countries in response to the strident language used at the Conservative Party Conference and this may make agreement harder still to achieve. Trade agreements such as that with Canada typically take much longer than two years to negotiate and the UK currently does not have an experienced team of trade negotiators because such negotiations are currently the exclusive remit of the EU. There have been some signals from EU sources that the exit agreement might potentially deal with little more than the administrative arrangements for Brexit.

What Form of Trade Relationship?

The principal options for a new trade relationship between the EU and UK are:

- Continuing UK membership of the EU Single Market;
- A bespoke trade agreement;
- Continuing membership of the EU customs union;
- Reversion to World Trade Organisation (WTO) rules.

Continuing membership of the EU Single Market would be highly desirable from an Irish perspective and is also the preferred option of a wide cross section of the UK business community. The UK Prime Minister's speech to the Conservative Party Conference made it very clear, without actually saying so, that continuing membership of the Single Market will not be sought as this would involve acceptance of free movement of persons.

It is now much more likely that the UK will seek to negotiate a free trade agreement with the EU. This will be complicated because Member States will seek to protect their own interests and it is unlikely to cover services to any extent. There is also a desire among some Member States to ensure that the deal negotiated with the UK is not so attractive as to encourage others to consider leaving the EU. It is in Ireland's interest that any agreement which emerges is as close as possible to the existing Single Market arrangements.

Continuing membership of the customs union would ensure that there were no tariff or non-tariff barriers to trade between the UK and the EU. However it would require the UK to impose a common EU tariff on all imports from third countries. This may not be attractive to the UK as it would limit its ability to negotiate attractive trade agreements with third countries, something which many politicians and commentators see as the principal way of growing the UK economy outside the EU.

One benefit of the EU customs union is a common set of rules known as the Union Customs Code and it has been suggested recently that, even if the UK does not participate in the EU customs union, it could adopt the Code into domestic law thereby simplifying trade with the EU.

If no trade agreement emerges from the negotiations, WTO rules will apply. This would see the application of tariffs to trade between the EU and UK. The UK would however have to apply for membership of the WTO because it is currently represented by the EU.

The Impact on Ireland

Ireland is the EU Member State which will face the largest impact from Brexit:

- The UK is Ireland's largest export market. In 2014 our exports to the UK were valued at €34 billion or 17% of our total exports worldwide. The UK was our No.1 destination for services exports (€20 billion or 20% of the total) and No.2 for goods exports (€14 billion or 15% of total goods exports). The UK has been gradually declining in importance as an export destination since the early 1970s when it accounted for over 50% of our exports.
- Some 40% of our food exports go to the UK and are worth over €4 billion. Meat exports to the UK are about €2 billion or 55% of total meat exports. The equivalent figures for dairy exports were €1 billion and 30%.
- Ireland is the UK's fifth largest export market and accounts for a bigger market share than China, India and Brazil combined.
- About 200,000 Irish jobs depend directly on exports to the UK. The equivalent figure for the UK is similar, meaning that about 400,000 jobs depend on trade between the two countries.

The Department of Finance published UK EU Exit - *An Exposure Analysis of Sectors of the Irish Economy* in early October looking at our exposure to Brexit. It found that:

- Computer services, food and live animals, chemicals, insurance/financial services and transport have the highest "size exposure" in terms of their share of total exports to the UK. These sectors together account for 11% of total exports compared with 6% for all other sectors. Transport accounted for about 20% of total services exports to the UK.
- Transport services, minerals, manufactured goods and food and live animals are the most exposed sectors when we look at the proportion of goods from each individual sector exported to the UK ("proportional exposure"). About 80% of total transport exports were to the UK.
- Combining the two exposure measures, the most exposed manufacturing sectors are pharmachem, food and beverages, traditional manufacturing, materials manufacturing and electrical equipment. Between them, these

sectors account for 75% of manufacturing gross value added (GVA) and 94,000 jobs.

- These most exposed manufacturing sectors have a comparatively large proportion of jobs outside Dublin and particularly in the Border region. Over 90% of employment in electrical equipment manufacturing is outside Dublin, with 86% for materials manufacturing, 78% for food and beverages, 70% for pharmachem and 69% for traditional manufacturing. This means that the negative impact on jobs could be greatest outside Dublin, exacerbating the current so-called “two speed economy”.
- The most exposed areas in the services sector are transport, insurance/financial services and computer services.
- The UK is also an important source of imports into Ireland, accounting for 28% of total merchandise imports and 17% of overall imports. These imports include both finished products and raw materials/intermediate products.

Ireland also has a critical and unique transport exposure:

- We are the only EU country with a land border with the UK and this has a dual significance. The border with Northern Ireland will now become an EU external border with all that entails for the movement of both goods and people. It also has implications for the Northern Ireland economy and the still fragile peace process.
- Over 80% of our trade with mainland Europe transits as road freight through the UK. This is principally perishable or other time sensitive trade. The dominant mode is RoRo and there is unlikely to be any realistic alternative for this trade other than the UK landbridge. After Brexit, Irish landbridge trade will have to exit and re-enter the EU with potential customs and border inspection implications which it does not face at present.

Issues for Ireland

The paragraphs that follow attempt to identify some of the main issues for Ireland and to provide some initial guidance on an emerging policy position for the Institute.

Free Trade

A free trade agreement between the EU and the UK is essential from an Irish perspective. Ideally it will be as comprehensive as possible and as close to the current Single Market regime as is feasible.

Sterling Volatility

The recent decline in the value of sterling has presented substantial difficulties for Irish exporters and this will be exacerbated if sterling moved towards parity with the euro. The food sector could be particularly vulnerable and we have already seen resistance to price increases from the big UK supermarket chains. Small firms

would be particularly vulnerable since they do not have market power of the major multinationals. Imports from the UK should be cheaper. However many UK products depend on imported raw materials or intermediate products which have become more expensive. We have also seen some resistance by UK suppliers and multiples to passing on price reductions to the Irish retail sector, particularly in the grocery sector.

Relocation of Enterprises

Some companies with a high exposure to the UK market in terms of the exports and/or the import of raw materials/intermediate products may consider relocating some of the production to the UK to ensure unfettered access to that market and avoid sterling volatility. This could be a real threat in the food sector and there is anecdotal evidence that some companies considered such a move during our severe economic downturn.

Border and Customs Controls for Goods

Border and customs controls for goods should be kept to the absolute minimum. If such controls are imposed they will reduce Ireland's economic competitiveness by increasing transport and compliance costs and making it more difficult to meet deadlines for the delivery of perishable and other time sensitive products. To illustrate this point, the WTO estimates that, on average, customs clearance accounts for around 8% of the cost of importing goods by sea and adds about a day to the import process for a single freight container. The impact would potentially be more serious for Irish landbridge trade which involves two sea crossings.

We would strongly favour the implementation of electronic border and customs controls for goods moving between the EU and UK so as to minimise delays and compliance costs. The documentary requirements should be kept to a minimum, streamlined, consistent and be implemented by electronic means in real time. It is critical that any changes do not impose additional direct and indirect costs on trade. Such costs will ultimately be passed to the final consumer and will have a negative impact on competitiveness.

The Border with Northern Ireland

The general observations on border and customs controls already made above are particularly relevant to cross-border trade with Northern Ireland. This trade has grown strongly in recent years and it is critically important for both economic and political reasons that it is facilitated and encouraged by the new arrangements for border and customs controls.

The movement of persons across the border is somewhat more complex because of the UK desire to have effective control of immigration and because the land border with Northern Ireland will now become an external border with the EU. In a recent House of Commons debate, the Brexit Secretary, David Davis, indicated that

the UK was committed to maintaining a soft border with Ireland. Irish and Northern Ireland politicians have expressed a similar desire. The key question is how to achieve it and it is clearly not as easy as for the movement of goods.

The UK clearly wishes to have effective controls on inward migration and therefore will not want this country to become a backdoor for access to the UK. EU citizens will continue to have free access to Ireland and, once here, could easily move to the UK via Northern Ireland if the current arrangements continued to apply post-Brexit.

Electronic controls of the type favoured for merchandise trade clearly would not work for the movement of people. Therefore one alternative option would be to implement controls at the sea and air access points for travel from the island of Ireland. This would obviate the need for controls on the movement of persons across the land border but controls on travel between Northern Ireland and mainland UK are likely to be politically sensitive. In practice, there are already significant controls in place for air passengers travelling between the two islands given increasing security concerns in recent years. A passport or other official evidence of identity is a virtual necessity. The common travel area already exists more in theory than in practice for people travelling between Ireland and the UK by air. More stringent controls would be required for passenger movements by sea.

Controls at airports and seaports are preferable to controls on the land border. Most people are already familiar with the controls at airports and, while inconvenient, they are largely accepted. Additional controls would be needed at seaports but they would be no more onerous than those at airports. They would only affect the minority of people who travel to Britain by sea.

Aviation

The UK was a prime mover in the liberalisation of air transport and passenger routes between Ireland the UK were among the earliest to be opened up to competition. It is likely that the UK will want to continue with a liberalised approach to air transport for both passengers and freight. When the UK exits the EU it will no longer be bound by existing arrangements for free movement by air. It would therefore be necessary for the UK to join the European Common Aviation Area (ECAA) and probably to accede to the US/EU Open Skies Agreement. Continued participation in the EU emissions trading scheme for aviation would also be essential to ensure that UK airlines did not get a cost advantage over their EU competitors. This would also require the UK to undertake to continue to comply with EU technical, safety and security rules. Continuing participation by the UK in a liberalised aviation market should be supported and encouraged by Ireland.

Maritime Transport

There are unlikely to be major implications for the maritime transport sector in terms of market access. Shipping services between the Ireland and UK will continue to

operate. Much shipping regulation is international rather than EU-based, such as SOLAS (safety at sea) and MARPOL (environmental). The main concern would be the impact of any re-introduction of border and customs controls requiring a possible rescheduling of sailings and the provision of larger inspection and holding/storage areas for trucks. Much of this could be avoided by the use of electronic controls as recommended earlier but there might be a need to provide increased space for inspections and revised arrangements for bonded goods. In the case of passenger traffic, there might be a need for revised arrangements to facilitate border controls at ports.

International Rail Services

The Dublin-Belfast Enterprise rail service is Ireland's only international service and is governed by EU market access, technical, consumer protection and safety rules. There will be a need for clarity as to the arrangements which will apply post-Brexit. These arrangements will most likely largely be determined with respect to rail services operating through the Channel Tunnel but it will be important for Ireland to take an active part in those negotiations to ensure that measures are not agreed that would be detrimental to Irish interests. The Irish negotiating position should be determined in close consultation with the Northern Ireland authorities whose interests are more likely to be reflected in the Irish stance.

International Bus Services

International bus services within the EU are governed by a range of market access, technical, consumer protection and safety rules. Irish companies operate a range of international services particularly to Northern Ireland and mainland Britain. It will be a matter for the UK in the first instance to decide if it wishes to maintain the existing arrangements for international bus services. It is likely to want to do so because it has been to the forefront in liberalising the provision of bus services. Ireland should support and encourage the UK to maintain the existing arrangements for the operation of international bus services and ensure as far as possible that the existing liberalised arrangements and rules continue to apply post Brexit.

Continued Application of EU Rules

There are a wide variety of EU rules governing the logistics and transport sector. Examples include:

- Technical rules relating to vehicles covering areas such as weights and dimensions of commercial vehicles, emission standards and so on;
- Vehicle type approval which means that vehicles once certified by an EU Member State do not need to be certified by any other;
- Driver and working time and tachograph;
- Tolls and charges for the use of roads;
- Access to the road freight and passenger transport profession;

- Driver licensing;
- Rail interoperability and safety;
- Aviation safety and security;
- Consumer protection such as the air travel compensation regime;
- Cabotage;
- State aid to transport enterprises.

There are also a wide range of EU rules which impact on the transport of food products and animals.

It will take some time to determine whether, and to what extent, this vast array of rules will continue to apply to the UK. A number of issues will require to be considered by Ireland:

- A major factor determining the continued application of these rules to the UK will be any free trade agreement made between the UK and EU. Access to EU market should be accompanied by a requirement for the UK to continue to implement rules which ensure a level playing field for all participants.
- It is critical to ensure that the UK does not change the rules to give a competitive advantage to its own commercial undertakings. Examples where this might happen would be more flexible driving time and working time requirements for commercial drivers or the introduction of tolls and road user charges which discriminate against non-UK vehicles. As far as possible the existing EU territoriality principle should continue to apply. This says that certain rules, such as road user charges, should apply to all road users in a particular territory and should not discriminate on the basis of nationality. It would also be important to preserve existing cabotage rights for Irish hauliers operating in the UK. Another important, and currently controversial, is the provision of State aid. The UK may no longer have to comply with EU State aid rules and this could allow it to give benefits to UK transport enterprises which would put them at a competitive advantage compared with EU-based companies.
- UK and EU rules, and their application, should be as compatible as possible. This is particularly important for Ireland which would not want freight traffic using the UK landbridge to face a succession of different rules and interpretations.
- There is a risk that over time there will be an increasing divergence between EU and UK rules as the EU continues to develop its regulatory environment and the UK undertakes a lengthy re-assessment of the rules inherited from the EU. It would be particularly important for Ireland to seek to influence both the EU and UK to minimise the divergence between their respective rules governing transport and logistics.
- The UK should be encouraged to confirm that the existing EU rules will continue to apply for a specified transition period while it undertakes a

review. This seems to be what is planned in the Great Repeal Bill and would remove uncertainty at least in the short to medium term.

UK Trade Agreements with the Rest of the World

The UK will wish to enter into new agreements with third countries, both those who already have trade agreements with the EU and those who do not. Despite the UK's aspiration to move quickly to establish new trading relationships with third countries, this is unlikely to happen in the short term. The UK is prohibited by its treaty obligations from negotiating on trade with third countries while it remains a member of the EU. It may be able to do some preliminary work but it will not be able to conclude agreements. The UK currently does not have sufficient experienced trade negotiators and much of its effort in the short term will be focussed on negotiating Brexit and a new trading relationship with the EU. Third countries may be slow to commence serious discussions with the UK until its future trading relationship with the EU becomes clearer. Negotiations with the UK may not be a priority for some countries. Trade negotiations generally take a long time to reach fruition and there is a trend towards protectionism in some countries such as the USA.

Ireland needs to monitor UK trade negotiations with third countries to guard against losing its competitive advantage. This could arise, for example, in the food sector if the UK sought trading arrangements with third countries which would ensure access to cheaper food. A good example would be beef from South America, an area in which Irish exporters have a particularly high exposure in the UK market. There are limits to what Ireland can do on its own to influence UK trade policy vis-à-vis third countries but it can use its continuing membership of the EU to mitigate any adverse impacts. The EU should be keen to ensure that its Member States are not put at a competitive disadvantage by any action of the UK and to apply the principle of reciprocity.

Recent Developments

The CEO has been in contact with both CILT(UK) and CILT(NI) to discuss the implications of Brexit and shared an earlier draft of this paper with them. CILT(UK) held a roundtable in London on 13 October to discuss the potential risks and opportunities for the sector in the light of the Brexit decision. We were the only organisation outside the UK invited to attend and Tom Ferris represented CILT Ireland. Three observers for the UK Department for Transport also attended and the discussion centred around four general questions posed by the UK Department for International Trade, summarised as follows:

- What are the immediate risks and what action should the UK Government take to mitigate them?

- What should the UK be doing now to sustain and build business confidence to continue trading and invest in innovation and growth?
- What are the principal concerns and priorities for the Brexit negotiations?
- What should the UK's priorities be for its trading relationship with the rest of the world?

No major surprises emerged from the discussion. Points made included:

- The importance of an early decision on the form of a trade deal with the EU and a clear transition timetable.
- Not introducing any changes to existing practices and systems until clear new arrangements are in place.
- Delays at borders could be minimised if the UK incorporated the Union Customs Code into domestic law.
- Brexit presents opportunities as well as threats.
- Concern about the impact of restricted immigration on business and the need to upskill replacement indigenous workers.
- Uncertainties for the road haulage sector in terms of employment, driving hours' rules, access to market and border controls.
- Concern about the impact on foreign direct investment in the UK.
- More scope for developing new markets and freedom from EU rules.
- A positive view from the maritime sector and some discussion of the development of port hubs to counter the dominance of Rotterdam.

We understand that CILT(UK) is not considering any formal structured submission to its Government.

The Department of Transport, Tourism and Sport has invited CILT, IBEC, ISME, IRHA, Freight Transport Association and Irish International Freight Association to a stakeholder consultation on Brexit on 25 October. This will provide an update on Governmental and DTTAS preparations for Brexit and seek an input on a number of questions:

- Key issues of concern, red line issues and preferred outcome?
- Suggested negotiating position?
- Possible opportunities arising from Brexit?
- Any specific issues relating to (i) Ireland/Northern Ireland, (ii) Ireland/GB and Ireland/EU?
- Short and longer term implications for the industry?