



Report of the British Irish Chamber of Commerce

SME Consultative Forum

'Listening to our Members – Delivering for the Sector'

Kindly hosted at Grant Thornton, Molyneux House, 67-68 Bride Street, Dublin 8

25 May 2017

Background and Context:

The British Irish Chamber of Commerce represents business activities with interests across the two islands of Britain and Ireland. It exists to champion, protect and grow the trade between the UK and Ireland which exceeds €60 billion a year and sustains over 400,000 jobs throughout the economies, and the communities, of Britain and Ireland. Working on behalf of its members, large and small, north, south, east and west, the Chamber maintains the closest links to our governments, civil service and opposition spokespersons to ensure that the views of our members are factored into action.

The SME Committee of the Chamber represents small and medium business enterprises across Ireland and the UK, its raison d'être is to be the focal point for SME businesses in the British Irish business space. One of its key goals is to ensure that any barriers that may impede the trade between the UK and Ireland are removed and to make a pathway, ensuring more effective links between the UK and Irish markets.

As part of its objective to facilitate information exchange between its members and government representatives, the SME Committee organised a Consultative Forum "Listening to our Members – Delivering for the Sector" on Thursday 25 May 2017, in Grant Thornton, Molyneux House. The purpose of this Forum was to ascertain members' views, concerns and expectations following the UK electorate's decision to leave the European Union and the subsequent invoking of Article 50. This report is a record of that discussion. It outlines the main issues identified over the course of the afternoon as well as suggested policy actions. This report will form the basis of a policy paper that will be developed by the SME Committee.

Format:

This Consultation was attended by 25 SME participants from the North and South. Sectors represented included construction, manufacturing, financial services, marketing, publishing and energy suppliers. The Forum was opened by the Chamber's SME Committee Chair Aidan Scollard, followed by short remarks from the Chamber's Director General John McGrane. The Minister for Employment & Small Business, Pat Breen gave the keynote address and set the scene for the afternoon's deliberations. Participants were then separated into two groups seated at tables of approximately 12. A Facilitator and Notetaker were at each table. Joanne Hession, Entrepreneurial Academy and Jane Murphy, Big Mountain Productions chaired their respective tables.

Minister's Address:

Minister Breen acknowledged the work of the British Irish Chamber of Commerce and thanked the SME Committee for their invitation noting that it was important to take stock and exchange views on such a crucial issue as Brexit. In his remarks he noted that the SME sector was the 'backbone of the economy' representing 99% of all enterprises and employing over 70% of people working in the private sector.

He stated that at a business level, and in particular, at a SME level, his Department has in turn been very active and that the Government, through Enterprise Ireland was already focussing on a two key priorities:

1. Intensifying its work with EI clients to maintain and grow UK exports and extend their reach into international markets, and;
2. Reinforcing the competitiveness of clients with ambition by strengthening their productivity, their approach to innovation, and their management capability

The Minister spoke of the new Credit Guarantee Scheme which had supported 400 SMEs with €65 million in bank loans. The Minister acknowledged Enterprise Ireland's new initiatives such as the establishment of a €1 million 'National Small Business Innovation Research Fund'.

In relation to Brexit the Minister made it clear that Ireland's trading relationship with the UK has always been strong and will continue to be so. The UK is Ireland's largest single trading partner accounting for 37% of exports by Enterprise Ireland client companies. The Minister noted that the new trade strategy, 'Ireland Connected', aims to increase the value of our exports to the UK over the coming years.

At a Government level, the high level approach to Brexit is based on four clear priorities:

1. Minimising the impact on trade and the economy;
2. Protecting the Northern Ireland peace process;
3. Maintaining the Common Travel Area;
4. And influencing the future of the European Union.

In closing the Minister spoke of the numerous tools available that allows organisations to measure their exposure to Brexit notably, Enterprise Ireland's Brexit Scorecard through the prepareforbrexit.ie website.

Report from the breakout sessions:

Participants were split into two groups and were asked to discuss the following questions at each table:

1. What current trade relationships do you have in the other jurisdiction –e.g. suppliers, customers, partners etc?
2. What if any has been the initial impact of Brexit on your business?
3. What has your company done thus far to prepare for Brexit?
4. What is your biggest business concern following the United Kingdom's formal exit from the European Union? Please elaborate how this would affect your business?
5. What initiative(s) can your government introduce to support your business?

Following detailed discussions, the Facilitator from each table reported back to a Plenary Session the views of their table on the 5 questions put to them. The following is a summary of those deliberations.

What current trade relationships do you have in the other jurisdiction e.g. suppliers, customers, partners etc?

Most participants exported/imported into the other jurisdiction, primarily the UK and Northern Ireland, all the participants had some form of trading relationship that would be impacted as a consequence of Brexit. One participant based in Ireland outlined that 60% of their customer base were from the UK. It was noted that the UK was central for Irish SME's not just for the export market but as a supplier for their businesses. Exports and imports to and from the UK were by various means such as through shipping, courier vans and heavy good vehicles. One participant pointed out that they had a UK VAT number, UK, phone number, address, but were effectively based out of Dublin. Some participants flagged that although not directly exposed to the UK themselves a lot of their customers were and that was having a knock on effect on their business in Ireland. This point was illustrated by a participant who had wanted to expand their operations into the UK market. They had looked at premises and joined the British Irish Chamber but were now holding off on investing in the UK market until further clarity over Brexit emerged.

What if any has been the initial impact of Brexit on your business?

Participants had wide ranging and diverse responses in relation to their experiences on the initial impact of Brexit. Participants noted that consumer confidence had been hit, that there was a notable drop in sales from their UK customers, some participants have since noted an upturn in sales after the initial impact but this experience was not common throughout the group. Participants noted the decrease of the value of their exports as a result of the falling value of the Pound against the Euro, others noted that their costs had reduced because of currency fluctuation but have found that exporters are now increasing their prices. Companies operating in services were particularly concerned with currency fluctuations, that concern extended to companies trading in Dollars, as well as Sterling. It was noted that UK import prices have increased by 10% in some areas.

A participant who works in venture capital explained that Irish start ups rely on the UK market for seed capital, due to uncertainty that has started to dry up and is having a knock on effect on Irish start ups trying to get off the ground. Some participants have noticed caution in businesses extending to a new 'Britain First' sentiment where there is a growing nationalistic view towards non-indigenous companies. There has been increase in new customers wanting to know where goods come from. One company stated that they are putting key salespeople with UK-sounding accents out front. One company already trading in the UK had noticed an increase in interest from London towards taking more work from regional companies including Northern Ireland to better reflect diversity/regionalism post-Brexit.

What has your company done thus far to prepare for Brexit?

Some companies have hedged currencies while others have insisted on being paid through Euro. Some participants have initiated a detailed examination of income and expenditure streams to identify potential difficulties as a result of Brexit. Other participants outlined that they had sought advice from a professional service provider to hedge currency (in advance of the referendum). Some participants referenced efforts to look at new markets but noted difficulties with the language barrier, diverging regulations and lack of national government support. One participant elaborated that France does not have the same pro-enterprise culture that the UK prides itself on. Panellists agreed that 'looking to new markets' cannot be treated as a panacea to Brexit, the UK market cannot be easily replaced. In recognition of a growing 'Britain First' sentiment, some panellists have changed resourcing and managing in their key accounts. One panellist stated that they had changed their email addresses to '.co.uk' to give the impression of being more of an indigenous UK based company. There was general agreement that Enterprise Ireland's 'Brexit Scorecard' has been quite

useful for companies preparing themselves for Brexit, another participant acknowledged that Enterprise Ireland's support staff had been quite helpful in addressing concerns that they had raised.

A couple of participants informed the discussion that they were considering opening a base in Northern Ireland to have access to the UK post-Brexit. It was noted that there has been a growing number of companies thinking of buying a UK company or using UK for finishing their products. There was a general feeling amongst contributors that this might help circumvent custom rules. In one of the panels, when the conversation turned to whether companies had established a Brexit Committee, there was a general consensus that SMEs were too small to set up such a committee as they lacked the resources. One contributor pointed out that of the top 100 logistics companies in the country only one in the 100 had a Brexit Committee.

What is your biggest business concern following the United Kingdom's formal exit from the European Union? Please elaborate how this would affect your business?

Both groups reported significant concerns in relation to a variety of issues raised by their participants. As expected there was concern over the introduction of tariffs but more pointedly the introduction of customs checks. Tariffs can be factored into the cost of production, but delays and administrative costs associated with customs checks are more burdensome. There was a concern that supply lines would be disrupted, creating a systemic risk for SMEs. It was also identified there could be systemic risk to a number of Irish companies if their UK suppliers (major or sole suppliers) also failed due to Brexit. As previously highlighted these concerns have led to uncertainty curtailing investment. All participants agreed that while uncertainty was prevalent, it would also have a significant knock on effect on consumer demand.

There was a general feeling that the processes in relation to VAT and regulations may start to diverge increasing administrative costs and squeezing capital for SMEs. Some participants were fearful that there might be a squeeze on credit from banks who themselves fear the uncertainty associated with Brexit, others raised the prospect of banks increasing their charges. Participants were anxious about the difficulties that could arise in relation to their international (Non EU) workers who may require two visas to work in both the EU and the UK. There was more optimism amongst participants in relation EU workers, as they felt the UK and the EU would reach an agreement on reciprocal rights for existing EU/UK workers.

There was a feeling amongst some participants that there would be increased pressure on Irish SMEs from increased competition from UK firms moving to Ireland, this is particularly prevalent amongst law firms that have moved over to set up a base in the EU. There was unease that that larger UK firms could poach staff from indigenous Irish companies.

On a more positive note, the conversation briefly turned to the opportunities that might be presented to Irish SMEs in light of Brexit. Participants felt that there was an opportunity for Irish SMEs to increase their level of exports to the EU as UK exports would be curtailed by the potential imposition of tariffs and non tariff barriers, but that this opportunity is threatened by the size and infrastructure of Irish SMEs. There was a strong inclination that UK companies would look to outsource some of their operations to Ireland, in this scenario Irish SMEs should position themselves to maximise the benefit.

What initiative(s) can your government introduce to support business?

This segment of the discussion provoked the most animated response from participants in both groups and was elaborated on further during the plenary discussion. Brexit will have a significant impact on the cost base and competitiveness of Irish SMEs, to offset some of the increased costs associated with Brexit participants suggested some fiscal changes the government can employ. These measures include:

- Reducing employer PRSI along the lines of the successful Jobsplus initiative in 2011
- Reduce the Capital Gains Tax
- Increase the Entrepreneurial Relief Scheme lifetime threshold from €1m to €10m to match the UK
- Reduce the standard rate of VAT – at 23% Ireland has one of the highest standard rates of VAT in the OECD
- All Energy efficient products should be re-designated from the standard rate of VAT to the lower or zero rate of VAT.

There was a strong consensus that the State should reach its target of 4% of GDP expenditure on infrastructure, while the importance of fully implementing the National Broadband Plan was also stressed. The group welcomed the establishment of the Employer Liability (EL) Insurance and Public Liability (PL) working group noting that if the general trend in rising insurance costs were to continue it would be particularly prohibitive to manufacturing companies. Some participants highlighted that companies can find themselves outside the remit of the Local Enterprise Offices and Enterprise Ireland therefore an expansion of Enterprise Ireland's remit should be considered by the Department of Jobs.

While the National Response Strategy is one of diversification, in parallel there is still a lot of business to be done with UK and we shouldn't lose sight of this. The example of Bord Bia's Marketing Intensification Programme (MIP) was highlighted. This initiative was established following Brexit with a specific purpose to provide targeted marketing support to agri-food companies with

high dependency on UK markets. The Department of Jobs, Enterprise and Innovation should look to develop a similar scheme for non agri-food exporters.

There was also a call for the Irish Government to push for the establishment of a Pan EU post-Brexit 'EU reform fund'. This fund should be targeted to support sectors disproportionately impacted as a consequence of Brexit.