**BREXIT REPORT**

**2016**

## C:\Users\keoghe\AppData\Local\Temp\wzb1b5\ibec_logos_x_6\ibec_2col_landscape.jpg *RESEARCH UNIT*

### Profile of Respondents

A total of 456 companies responded to the survey. Profile details are as follows:

* Almost half the respondents (49%) were in the services sector. The classification of other services, which is used as a ‘catch-all’ category for a wide variety of service activities, accounted for the majority of the services companies in the survey.
* While there were respondents from all regions of the country, over half (53%) were from Dublin, while 9% were based in the West.
* Companies with fewer than 50 employees accounted for over half of the respondents (57%).
* Over half of the respondents (56%) were exporting companies, while two thirds, (66%) were Irish-owned.

### Possible Impacts of Brexit

The largest negative impacts for respondent companies were expected around exchange rate movements, where 45% of respondents expected a negative impact on their business. Negative impacts relating to competition from NI/GB companies, and to the cost of exporting to NI/GB was expected in one-third of respondent companies. Other main negative impacts of Brexit expected by respondent companies were in relation to pricing (31%), the value of export sales (26%) and volume of export sales (25%).

Exporting companies were more highly exposed on UK markets, with over half of the exporting companies in the survey (52%) expecting a negative impact on exchange rates as a result of Brexit. Other market related measures were similar, 47% of exporters expected a negative impact on the cost of exporting to NI/GB, and 39% expected negative effects as a result of competition from NI/GB.

Few companies expected a positive impact on their business under any of the headings, fewer than one in ten in all cases, with the exception of the ability to win inbound investment projects (13%). While overall the expected impact on exchange rates was negative in 54%, in one in ten companies exchange rate movements were seen as potentially having a positive impact on the individual businesses.

**Table 1: Possible negative impacts of Brexit**

|  |  |  |  |
| --- | --- | --- | --- |
| Item heading | % negative impacts  (N=456) | % exporters negative  (N=254) | % non-exporters negative  (N=202) |
| Exchange rate movements | 45 | 52 | 37 |
| Cost of exporting to NI/GB | 33 | 47 | 15 |
| Competition from NI/GB | 33 | 39 | 25 |
| Pricing | 31 | 37 | 23 |
| Value of export sales | 26 | 41 | 7 |
| Volume of export sales | 25 | 39 | 7 |
| Value of domestic sales | 19 | 16 | 23 |
| Volume of domestic sales | 18 | 15 | 22 |
| Recruitment | 14 | 16 | 11 |
| Ability to win new inbound investment | 12 | 14 | 9 |
| Change in geographical location of business | 9 | 14 | 4 |
| Retention of staff | 8 | 9 | 7 |
| Reduced wage pressures | 8 | 9 | 7 |

### Main Challenges posed by Brexit for Irish Business

Exchange rate volatility is a key challenge identified by respondent companies, with almost a quarter of respondents (23%) identifying this as their main challenge. Investment confidence is the second most highly rated challenge among respondents with 19% identifying this as their top challenge.

Investment confidence proportionally posed a bigger challenge for services sector companies than for manufacturing companies, while customs and certification barriers were an issue for more manufacturing than services companies. Limits on freedom of movement of people posed a bigger challenge to services companies rather than manufacturing.

**Table 2: Top three challenges**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Challenges | Ranked 1 | Ranked top 3 | | Mean Score\* |
|  | **Number of companies** | | |  |
| Exchange rate volatility | **82** | | **208** | **1.29** |
| Investment confidence | **67** | | **117** | **0.76** |
| Tariff barriers to the UK market | **41** | | **104** | **0.60** |
| Cost competitiveness versus UK | **39** | | **130** | **0.72** |
| Limits on freedom of movement of people between UK and Ireland | **37** | | **100** | **0.57** |
| Customs and Certification barriers | **28** | | **97** | **0.49** |
| Consumer confidence | **23** | | **85** | **0.46** |
| Disruption to the All-Island market | **16** | | **55** | **0.29** |
| Regulatory divergence with the UK | **8** | | **52** | **0.24** |
| Increased competition from the UK for mobile investment | **6** | | **26** | **0.13** |
| Increased competition from UK in export markets | **5** | | **43** | **0.20** |
| Inward competition from the UK into the Irish market | **5** | | **54** | **0.22** |
| Total | **357** | |  |  |

\* Mean score is calculated by assigning a value of 3 to a ranking of 1, a value of 2 to a ranking of 2 and a value of 1 to a ranking of 3. Values are multiplied, added together and divided by the number of cases. This gives an insight into the relative importance of the items on the list. The higher the mean score the greater the importance of the item, across the top 3 rankings.

### Challenges for Exporting Companies

Looking at whether companies export or not, as expected the main challenges for exporting companies are those related to export markets, competition and exchange rate volatility. For example, exporting companies are more likely to see customs and certification as an issue for their company with 61 exporting companies ranking this as one of their top three challenges. Tariff barriers to the UK market ranked in the top three for 77 exporting companies (around a third of the total exporting companies covered by the survey).

### Contingency Planning

A total of 358 respondents provided information on contingency planning. Around one in ten (9%) had already put a contingency plan in place. One in five respondent companies is currently working on a contingency plan, while around 18% plan to work on a Brexit contingency plan in the coming months. However over half of those who provided information, (54%), indicated that they did not know, as yet, if their company would prepare a contingency plan. In terms of the preparation of contingency plans, larger companies were no more likely than smaller companies to have a contingency plan in place.

### Hedging and Pricing Agreements

A total of 70 respondents already had hedging in place. Of these 70 companies, 50 had identified themselves as exporting companies. Some 46 companies had pricing agreements in place, of which 32 companies were exporting companies. For the 46 companies with pricing agreements in place, over half (52%) were in sterling.

Overall 110 companies had either hedging or a pricing agreement in place. The duration of time for which companies were covered under these agreements is set out in table 3 below.

**Table 3: Hedging and Pricing agreements – period of coverage**

|  |  |  |
| --- | --- | --- |
|  | **Number** | **Percent** |
| 0-3 months | 18 | 16.4 |
| 3-6 months | 22 | 20.0 |
| 6-9 months | 15 | 13.6 |
| 9-12 months | 26 | 23.6 |
| 12-18 months | 7 | 6.4 |
| 18 months - 2 years | 6 | 5.5 |
| Other | 6 | 5.5 |
| Not stated | 10 | 9.0 |
| Total | 110 | 100.0 |

### Priorities for Ibec

The top three priorities identified by Ibec member companies were a renewed focus on the cost of doing business, the retention of the single market status for the UK, and to pursue our tax competitiveness versus the UK. The free movement of people between Ireland and the UK was a top ranked item for 55 companies, and appeared in the top three of 184 of the respondent companies.

### Conclusion

The Ibec survey results show that the main concern for firms in the wake of the UK referendum vote relates to negative exchange movements and their potential impact on individual businesses and on Irish business in general. Potential negative impacts relating to competition from NI/GB companies and to the cost of exporting to NI/GB was expected in one-third of respondent companies.

Among the top three challenges for business in general were exchange rate volatility, weaker investor confidence, and competitiveness against the UK.

One in ten Irish firms already has a contingency plan in place for Brexit. Of the 32 respondent companies that indicated that they have a contingency plan in place, the majority, 24 companies were exporting companies. Exporting companies were also more likely than non-exporting companies to be working on contingency plans currently.

Some 110 respondent companies currently have a hedging or pricing agreement in place. However, the protection of these agreements will expire for the majority of companies in the next 12 months. It is critical therefore that a co-ordinated policy response is in place to support the competitiveness of Irish companies and to mitigate the risk that Brexit poses to Irish Business.