Brexit: Ireland's exposure to imports from UK highlighted

Dr. Seán Ó'Riordáin

Summary

Much has been written about Ireland's exports and the challenges now confronted by the negative impact of BREXIT. While this remains a critical issue for both exporters and the Government it is not the only concern. Indeed it might be acknowledged that, given the level of concern and the now resulting shifts in planned transportation of Irish goods to the mainland through ports such as Zeebrugge and Rotterdam, there are mitigation options for Irish exporters of goods while service exports will be less impacted due to their virtual nature. This is not necessarily the case when it comes to our imports from the UK.

Overall Ireland has a trade surplus with the UK, but within the overall balance, runs a goods deficit alongside a significant services surplus. On the imports side, the UK represented a far higher share of Irish goods imports (23 percent) than exports (13 percent) in 2016, although the import share has been declining in recent years. The challenges arising from this level of exposure has been highlighted in a recent report (http://www.finance.gov.ie/wp-content/uploads/2018/03/20180327-Brexit-Analysis-of-Import-Exposures-in-an-EU-Context.pdf) issued in March by the Government's Economic and Evaluation Service (IGEES). The Report highlights that Ireland's sectoral imports are substantially the most exposed of the remaining EU-27, across almost all sectors. In particular, our exposure to UK sourced food and live animals is the most critical sector. The analysis in the Report further highlights the potential negative impact facing sectors such as retail, manufacturing and pharma-chem due to supply chain linkages. This will not come as a surprise to most people. A walk through many of our shopping centres and town centres will adequately demonstrate the impact of British Retail operators on our shopping options. The Report also shows that SMEs are likely to be disproportionately affected by a shock to supply chains as they comprise the majority of importers in certain sectors.

In this following briefing we examine the Report and consider it in the context of exposure of our cities and towns given the reliance on, for example, British retail providers. We will highlight potential policy impact for local government in its role as the principle player in planning and local economic development.

Introduction

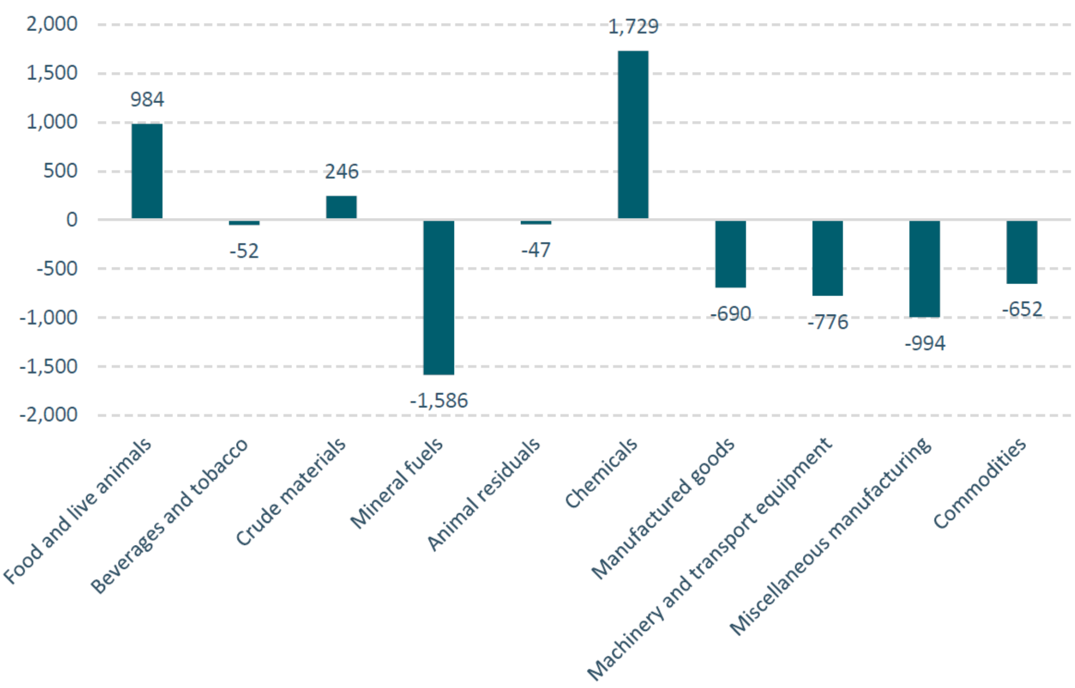
The Report highlights the importance of our trade relationship in goods with the UK. In 2016 Ireland imported €17bn in goods from the UK, representing 23 percent of its total goods imports, compared to 13 percent (€15bn) of goods exports. This places, the Reports demonstrates, Ireland as the most exposed country within the EU 27, four times more exposed in terms of goods imports to Cyprus, the next highest. In terms of our exports only the Netherlands is close to the level of exposure for goods.

Rank	Country	Total Imports from UK ($m)	UK Share of Total Imports	Total Exports to UK ($m)	UK Share of Total Exports
1	Ireland	18,360	24%	16,541	13%
2	Cyprus	427	6%	147	8%
3	Netherlands	26,179	5%	55,175	10%
4	Sweden	7,275	5%	8,179	6%
5	Belgium	17,776	5%	35,417	9%
6	Malta	265	4%	116	4%
7	Denmark	3,520	4%	5,651	6%
8	Spain	12,382	4%	21,204	8%
9	France	21,536	4%	34,446	7%
10	Germany	39,421	4%	94,076	7%
11	Portugal	2,089	3%	3,917	7%
12	Italy	12,169	3%	24,875	5%
13	Finland	1,818	3%	2,585	5%
14	Lithuania	748	3%	1,064	4%
15	Greece	1,293	3%	1,178	4%
16	Rest of EU-27	18,392	2%	40,236	5%

Note: Countries ranked by UK share of total imports. Source: UNCTAD

Our imports are spread across a wide range of sectors as set out in Figure 1 of the Report.

Figure 1. Ireland's Trade Balance with the UK by Sector, 2016 (€m)



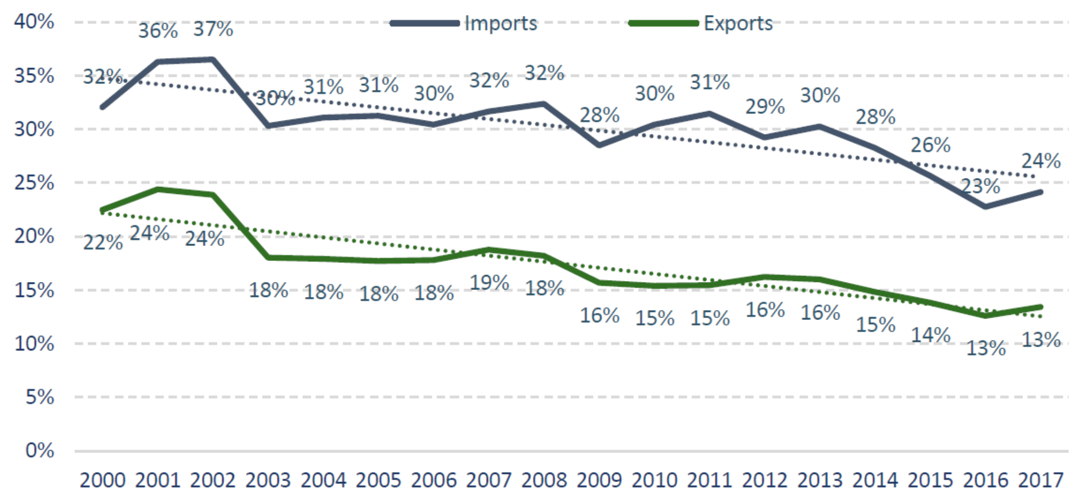
Source: CSO External Trade goods data. Department of Finance analysis.

As is clear from the above Ireland runs a trade surplus in 3 sectors: Food and live animals, Crude Materials and Chemicals. Critical sectors to the overall economy such as machinery and equipment, manufactured goods etc all run trade balances in favour of the UK economy. Even within the three sectors running trade surpluses there is an considerable import quotient which in the advent of tariffs and currency movement bring the risk of inflation and border disruption to the Irish economy.

In overall terms the Report finds that about half of our UK imports are intermediate goods, making the final manufactured goods, themselves often exported for further processing, potentially more expensive and therefore impacting upon Irish competitiveness in other international markets.

Over the longer term Irish exposure to the UK economy has lessened, particularly so in the past decade but nonetheless it remains one of the more critical markets for both exports and imports. The Report highlights this reducing exposure. In Figure 5 of the Report exports to the UK have fallen from been as high as 24% of total exports in 2001/02 to 13% in 2017 while imports have fallen from 37% to 24% over the same period. Notwithstanding these falls, import trends in important sectors such as food and live animals have trended upwards suggesting a continuing exposure to the risks of inflation and competitiveness.

Figure 5. Evolution of UK Share of Irish Goods Trade



Source: CSO External Trade goods data. Department of Finance analysis. Dotted lines represent linear trendlines.

What about services?

The Irish economy is now primarily a service economy with a considerably smaller exposure to the UK economy in terms of exports. Nonetheless 6% of services are imported from the UK while some 16% of our service exports go to the UK. As a result Ireland runs a large surplus in service exports to the UK but fortunately much of these are unlikely, the Report demonstrates, to be impacted by tariffs and given their nature, border delays.

	Exports / Inflows	Imports / Outflows	Balance
Services sectoral breakdown:			
Transport	2,355	505	**1,850**
Tourism and Travel	828	1,177	**(348)**
Insurance	2,393	1,603	**790**
Financial services	4,238	632	**3,606**
Royalties/Licences	858	595	**263**
Computer services	6,932	200	**6,731**
Business services	3,713	6,435	**(2,722)**
Other	1,179	693	**486**

Source: CSO Balance of Payments data.

Overall the Report finds that Ireland is one of the less impacted of the EU27 in terms of our services making the high impact on our goods exports and imports all the more significant.

So what does this mean?

As the Report highlights, the UK is an important source of both final consumer materials and, critically, intermediate materials, much of which underpins both the local manufacturing and export orientated economy. As a result competitiveness is a major concern with the potential to import inflation along with the rising costs associated with British disassembly from the single market. A case of Ireland possibly catching a flu as the UK sneezes? In addition, the Report highlights the very real costs to Irish households. A potential rise in household prices could be as high as €1,360 per household per annum, having a major restraining impact on consumer confidence. There is also the potential disruption, over the long term, of the supply chain into Ireland from the UK with suppliers withdrawing from the Irish market due to the increased cost of trading, something which became a familiar aspect of the Irish economy during the recent recession with many, but not the more important, UK retail providers withdrawing. In the case of the major supermarkets being impacted there is legitimate concern that some may chose to remove themselves from the relatively more costly Irish market.

In addition, the Report highlights the impact upon the SME Sector in Ireland which is a major source of markets for UK produced goods. Disruption to the SME supply chain would have two major negative impacts. In the first instance a major source of trade for UK produced goods could be reduced resulting in lower economic growth in a still critical trading partner (Ireland is currently 10 times more important to the UK than Australia for example). In addition the increased costs of trade would potentially have a significant negative impact on local SMEs given their exposure to British imports and their more limited capacity to divert into other markets to source materials. All such factors would have a combined negative impact if not addressed.

Comment

The Report concludes that Ireland, notwithstanding the reduced levels of exposure to both imports and exports from and to the UK, remains critically exposed and that a significant structural shift in Irish/UK trade relation will arise under BREXIT. This will, if not addressed through increased diversification of our imports will have a very significant impact on the overall economy. In recent months there has been and will continue to be a concerted move to reduce Irish exposure in terms of exports. A very significant expansion of capacity to export directly into mainland Europe is underway with, in some cases a 10 fold increase in expansion in shipping capacity from ports in Ireland to the mainland thus reducing, potentially exposure to border delays in the current landbridge that is a feature of much of our historic exporting to the mainland. Our services are also less exposed.

All this is of course is as positive as it can get given the structural change coming about as a result of Brexit. What remains to be tackled, and arguably the more significant in overall public policy terms is the exposure of the Irish economy to its dependence on UK imports. This Report is an important wakeup call in that regard. While it is possible that the UK will be the most impacted by having reduced exports into Ireland (and indeed other critical trade partners such as the Netherlands) the fact that so much of what is imported into Ireland is used to add value to Irish exports as well as been important in final consumption is a major concern. Opening the potential to access imports from other mainland European markets is clearly a priority as much as is the case of continuing the diversification of Irish exports to the mainland. Will this be enough only time will tell.

At local level there will be clear impact of an immediate and possibly unavoidable level. Many of our town centres and shopping generally is based upon supply chains based and owned in the UK. What happens if these are disrupted? Local competiveness is based upon a viable local retail offering complemented by international providers, most of whom are headquartered in the UK. If these were to exercise a decision to withdraw from the Irish market where would that leave many of those towns presently only coming out of the worst recession in decades?

As noted earlier many of our export orientated SMEs have had a long term focus for exports to the UK but even more significantly has been the use of the UK to source goods for our SMEs, and not just in the retail sector.

Increased costs are one matter, what about the reduction of choice for a consumer that is used to accessing goods brought from or through the UK?

The most tangible negative impact from the lack of access to a wide range of products in the UK will bring back memories to many people in Ireland when pre single market there was a much reduced level of choice in goods in Ireland so such impact is not inconceivable.

The challenge of the import pillar to our economy will be significant. It is positive that it is now being highlighted by the IGEES. Consideration of same will need to be addressed within the retail strategies and economic and spatial planning strategies of local authorities. The efforts of the local enterprise offices of each local authority to expand export potential into markets other than the UK have made much progress in the past couple of years, even before BREXIT, but there was never a need to think in terms of lack of access to imported goods which form a major platform for our retailers and SMES. So action on this at local level really needs to be upped by a considerable margin.

Managing BREXIT is really about mitigating a truly challenging environment forced upon the people and Government of this Republic. It is highly complex, costly and will be hugely disruptive. Unfortunately there is little positive choice in this and if ignored, the impact will be plain to see across Ireland. Thankfully there seems to be a more realistic view on the impact of BREXIT on this side of the Irish Sea, made more so by the efforts of this Report by the IGEES which should be compulsory reading for those involved in both local and national economic policy development. However it is one thing to highlight these challenges, quite another to do something about it and that is something which cannot be avoided.