Joint Committee on Jobs, Enterprise and Innovation

Tuesday, 8th November 2016 at 6.15pm

“The Likely Economic Impact of Brexit, with particular emphasis on jobs and enterprise and the steps being taken to mitigate these risks”

Opening Statement by:
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INTRODUCTION

Chair, Deputies, Senators,

Many thanks for the invitation here today to share with you the experiences to date and concerns and opportunities identified by our members in the context of Brexit. Small firms are the backbone of the economy and represent 98% of the 238,000 businesses in Ireland, employing more than half the private sector workforce, and accounting for more than half the employment in 21 counties around the country. Yet despite the best efforts of our state agencies, we still account for only 6.4% of Irish exports, so my remarks reflect both the direct concerns of those exporters, but perhaps more importantly the potential knock-on implications of Brexit for the entire domestic economy in Ireland.

SFA SURVEY RESULTS

In the aftermath of the referendum, we undertook a survey of members to identify the biggest positive and negative impacts on their businesses of the UK’s vote to leave the EU. Respondents also shared information on their contingency planning, the challenges they anticipate as the exit process moves forward and their lobbying priorities. While it was deemed to be too early to judge many elements, it was clear that Irish small firms see the vote as having significantly more negative outcomes than positive ones.

The survey indicated that the most negative impacts for small companies are:

#1 Exchange rate movements (48%)
#2 Cost of exporting to Northern Ireland/Great Britain (39%)
#3 Pricing (38%)

Considering the strength of concerns around exchange rate movements, it is notable that the vast majority of small companies have no hedging (85%) and no pricing agreement (87%) in place.
Some businesses did identify some potentially positive outcomes from the vote, namely:

#1 Exchange rate movements (10%)
#2 Ability to win new inbound investment projects (10%)
#3 Pricing (7%)

Amongst small companies, only 8% had a contingency plan in place before the vote. A further 17% said that they were putting in place a contingency plan immediately. 17% also plan to work on a contingency plan in the coming months, while over half of the respondents (58%) said that they don’t have a plan or it is too early to tell.

Asked about the most challenging aspects of Brexit for their business, the most consistently raised issues were:

#1 Exchange rate volatility
#2 Investment confidence
#3 Cost competitiveness versus UK

PRIORITY ACTIONS

Since the Brexit vote, sterling has devalued by an average 18%; since December 2015, it’s 28% decline. This has devastated small firm exporters, who had little or no hedging in place, and in particular the low margin food sector, has had to withdraw from unprofitable contracts immediately, and has consequently had to serve protective notice on employees.

To talk just one example from an SFA member:

“Commodities net margins are about 1 to 2%; PCFs (Prepared Consumer Foods) are about 3 to 5%. Currency has dropped 28% since last December. On these figures, most exporters are now severely loss making, particularly small firms in the PCFs Sector, and thousands of
jobs will be lost. Companies are already starting to cull jobs, and in some instances, withdrawing from some UK Accounts. This will only accelerate over the coming months. In our own case, we have already initiated withdrawal on €2.7 million of revenue, as they are tight margin/high cost to service. A lot of producers, particularly in the PCF sector, which make up about 20% of total exports to the UK, (70% of what the PCF sector produce goes to the UK) cannot switch to the continent, as there is no market/want for their products there. The UK is the only natural export market for products in the PCF sector in particular, and for Start Ups in the Food & Drink Industry in general. Meat/Beverages/Chocolates, travels well across markets, PCFs do not. Hedging at this stage is of limited value, because the markets have priced in .90 to parity already, so the horse has well bolted, and any hedging done already is due to run out in January 2017.

On the other side, UK Companies are now aggressively targeting the Irish market, and Irish Companies are desperately trying to switch purchasing to UK Suppliers to cut costs, so there will be a double, if not triple whammy, as the other thing going on, is companies examining whether they can switch operations to the UK. This has being on-going for quite a while, because of greatly lower costs in the UK, but is now bound to accelerate. However, it’s not without its difficulties, and again, may only suit the bigger companies.

Only potential solution is to drastically cut taxes & costs for exporting Companies and ramp up availability of Grants in order to put money back in the Bank for companies to keep them afloat. Providing soft loans will maybe help in the short term, but this is going to be a long term problem, and a lot of companies with UK sales in the millions will not survive a year out. For every million in sales, companies are now having to adjust for about €250,000 per million. So a modest company with say €3 million in UK sales will be hit for €750,000 per year, or about €15,000 per week.

No company, other than the very strongest, can survive that long term.”

Government needs to step in now to save our export and in particular food sector, which as the potential to be wiped out before Brexit even happens. Financial support schemes targeting the exporting sectors should be made available as a matter of urgency. We have
already met with the Minister for Jobs, Enterprise & Innovation, Mary Mitchell O’Connor, TD and her officials and officials in the Department of Finance on this. We need Government to lobby the EU to introduce temporary state aid rule changes, as they did during the financial crisis in 2009, in order for us to reintroduce the Enterprise Stabilisation Fund scheme, which is necessary given the unique circumstances of Brexit’s impact on Ireland.

In addition, low cost finance such as the measures being developed by the SBCI for the agri-sector, should be made available to assist with cashflow in the short-term. A new export financing offering is another important element of Ireland’s response to Brexit and should be part of a general intensification of efforts by Enterprise Ireland and other State Agencies to help small exporters. These companies also need support to diversify their markets, as 43% of exports from all indigenous exporters are bound for the UK market.

The Government should also launch a public awareness campaign of the importance of buying Irish and shopping local in the run up to the lucrative Christmas shopping period to combat cross-border trade and the likelihood of cheaper food imports from the UK taking the place of Irish food products in supermarket aisles in the coming months. Helping companies to begin to and increase their on-line trading presence, is particularly important and the on-line trading voucher scheme should be extended to all small firms (those employing less than 50 people vs. the current restrictions of having just 10 employees.)

**SHORT/MEDIUM/LONG TERM ACTIONS**

In addition to the priority actions outlined above to assist small firms survive the exchange rate volatility, it is important that the Government focuses on working on issues in our locus of control. Our members have identified the following as priority issues for the Government to tackle in the immediate future, namely:

#1 Free movement of people between Ireland and the UK
#2 Renewed focus on the cost of doing business
#3 Tax competitiveness versus UK
It is vitally important that Ireland is at the heart of negotiations between the EU27 and the UK on their exit deal. The EU must recognise Ireland’s special position as being the only country to share a land border with the UK and have due regard for the stability of our peace process. The common travel area between Ireland and the UK predates our EU accession and must be preserved in any deal that emerges.

The No. 1 priority for all our members this year is cost-competitiveness, but following many years of recession, it is arguable how much more they themselves can achieve by operating LEAN business principles. They are more concerned by external costs rising, over which they are price-takers and have no control, and many of which Government policy has a significant impact on. For example, labour costs are the biggest concern, and government policy around minimum wage, joint labour committees, and its own public sector pay deals have major knock-on implications into private sector wage demands. Insurance costs are rising significantly and are now threatening the viability of some businesses, with the average company experiencing a 36% increase in motor insurance alone this year. Other concerns include future increases in energy costs, commercial rates, reduced access to public procurement opportunities for small firms and ongoing concerns around access to and cost of appropriate finance.

Tax competitiveness with the UK is exclusively within the remit of the Oireachtas and we would ask all of you to work collaboratively in introducing measures to address this in Budget 2018. Specifically we need an equivalent CGT Entrepreneur’s regime of 10% on the first Stg£10mn, and a general reduction in the CGT rate to 20% to encourage business transactions and new investments into business.

In conclusion, I would argue that it is in our interest that the UK remains as close a part of the single market as it can achieve in the negotiations. The UK is a key marketplace for our small exporters, it is a great learning ground when they’re starting up, and it is not so easy to diversify into other markets farther afield without significant resources. Equally, the UK is
our biggest market for tourism visitors, which has an impact on local economies right around the country. The threat of recession in the UK is very real and we would be very concerned about the knock-on implications of that for our entire domestic economy too.

Thank you for listening and I look forward to discussing these issues in more detail with you.