Small countries, big consequences

The Implications of Brexit for Dutch and Irish Businesses

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On September 21, 2017 KPMG and KPMG Meijburg & Co – in cooperation with the Irish Netherlands Business Association - organized the seminar 'The Implications of Brexit on Dutch and Irish Businesses'. Many clients and relations came to hear a number of interesting speakers, who gave their insights into the latest developments on Brexit and the economic threats, but also opportunities for the Netherlands and Ireland. The macro-economic impact was discussed, as well as the position of the Dutch and Irish government and of companies that do business with the United Kingdom.
The speakers and panelists participating at the seminar were

- *Robert van der Jagt, Chairman of KPMG's EU Tax Centre;*
- *Julie Sinnamon, CEO of Enterprise Ireland;*
- *Guido Landheer, Deputy Director General, Foreign Economic Relations, Department of Foreign Affairs of The Netherlands;*
- *Rory Montgomery, Second Secretary General and Director General, Department of Foreign Affairs, Ireland;*
- *Dr. Gordon Campbell, President INBA, Advisor to the Board and former CEO of SPAR International.*
- *H.E. Ambassador Kevin Kelly, Ambassador of Ireland to the Netherlands*

Where do we stand?

On Monday April 21, 2017 the political leaders of the Netherlands, the Republic of Ireland and Denmark organized a summit in order to discuss the implications of the Brexit on the economies of their countries. Of the 27 remaining EU member states, Ireland and the Netherlands are most likely to be most negatively influenced by the United Kingdom leaving the European Union[1]. It is therefore considered in the national interest of these relatively smaller countries to form an influential bloc during the UK-EU negotiations.
But what are the implications for these countries during the negotiations exactly? Of course this depends on the scenario of how the Brexit will turn out to be constituted. In the meantime, Dutch and Irish businesses should be aware on how they can optimally prepare for the Brexit.

- On Friday September 22, 2017 Prime Minister May of the United Kingdom gave a speech in Florence in which she proposed a transition period of around two years commencing after the UK leaves the EU on March 29, 2019. It is at this stage unclear whether the United Kingdom will remain a full member of the European Union or not during the transition period.

- Michel Barnier, the chief negotiator of the European Union, still awaiting the details from the United Kingdom concerning the negotiations, stated May's Florence speech showed a 'constructive spirit' to move quickly, and is looking forward to hearing the 'concrete implications'.

- The Netherlands and the Republic of Ireland believe negotiations should shift towards trade as soon as possible. Prime minister Rutte of the Netherlands and prime minister Enda Kenny of Ireland are concerned that their countries are particularly vulnerable given their close trading and cultural ties with the United Kingdom.

[1] Beetsmaet al, in Wyplosz, 2016 (CEPR); Lawless and Morgenroth, 2016

United Kingdom

Concerning the exit strategy of the United Kingdom out of the European Union, some clarifications have been made: Joining the European Economic Area, as Norway does, is deemed undesirable by the UK. Countries like Norway pay access to the European Economic Area, but is not able to influence regulations. A free-trade deal with the EU, as the EU ratified with Canada earlier this year, is also not desirable. According to May, a 'Canadian style trade deal' would represent such a restriction on mutual market access that it would benefit neither of the economies and would start from the false premise that there is no pre-existing regulatory relationship. Instead, the UK would like to negotiate a completely new, unique deal. But what the deal should look like was not yet fully clear. According to May, this deal is to be negotiated during a two year 'transition period'.

Netherlands and Ireland

The Netherlands and Ireland have expressed to have similar interests of a common nature concerning the negotiations. Both countries have expressed to the European Union to prioritize the concerns of the smaller countries which will be adversely affected by Brexit when the negotiations will begin. The fact that the UK intends to leave the Customs Union risks new trade barriers to be introduced.

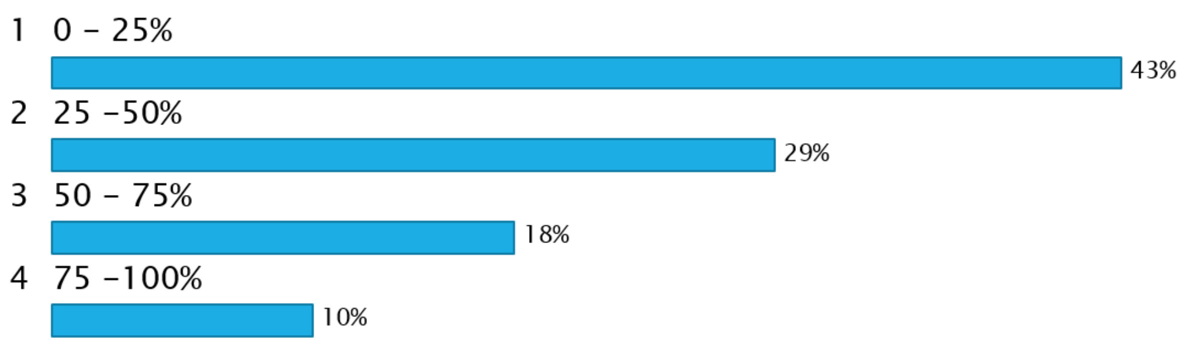
Seminar

What are the implications of Brexit on Dutch and Irish Businesses?

Brexit: The most pressing issue for the years to come

During the seminar, the speakers agreed that for the Netherlands and Ireland, the negotiations of Brexit are of vital importance. Due to the many insecurities surrounding the process of Brexit, the nervousness of the market is already increasing. In order for governments and companies to adapt to the new geopolitical and economic circumstances, vital questions need to be answered. Could the UK still remain in the single market? If not, will there be a trade agreement? Will there be a soft or hard border? And how will trade be able to continue?
On leaving the EU in March 2019, Prime Minister May has stated, "neither the UK or the EU will be in a position to implement smoothly new arrangements to underpin the new relationship both sides seek”. That is why she is proposing a transitional period after the Brexit. During this period access to one another's markets should be able to continue.
How long the period should be is to be determined by how long it takes to implement the new arrangements concerning customs and trade. May believes this could be around two years. However, despite the proposal of this transition period, a positive outcome of the EU-UK negotiations is still far from certain. During the seminar, the speakers agreed it will most likely end up in a trade agreement. However, a cliff edge (hard) Brexit, where the United Kingdom will fall back under WTO trading arrangements, should not be ruled out.
The latter was considered by the speakers to be a disaster for businesses in the Netherlands and Ireland. Forced to fall back on WTO trade regulations, tariffs would be introduced and border and custom controls will arise. It will increase the costs of products while decreasing the shelf life of products due to longer processes at the border. If quick agreements between the EU and the UK are not reached, total costs of products will rise and lose competitiveness in the market. It was concluded that it is essential that clarifications on these factors are given as soon as possible. One of the speakers stated clearly “We must trust in our governments to come up with a fair and good deal for all of the citizens of the EU and the UK”. The participants of the seminar agreed. During the panel discussion, voting was conducted among the audience. On the chances of the Brexit ending up in a ‘hard/ cliff edge Brexit, 72% believed this is to be unlikely.

HOW DO YOU ESTIMATE THE CHANCE OF A 'HARD'/ CLIFF EDGE BREXIT?



1=Very unlikely; 2=Unlikely; 3=Likely; 4=Very likely
Figure 1: Conducted among 103 Participants.

However, that does not take away the worries connected to the Brexit. Despite not being afraid of the Brexit ending in a ‘cliff edge’, the potential impact on the Dutch and Irish economy is what worries the most. During the seminar, the speakers advised Dutch and Irish companies to ‘prepare for the worst, and hope for the best’.

WHAT WORRIES YOU THE MOST IN CONNECTION WITH BREXIT?

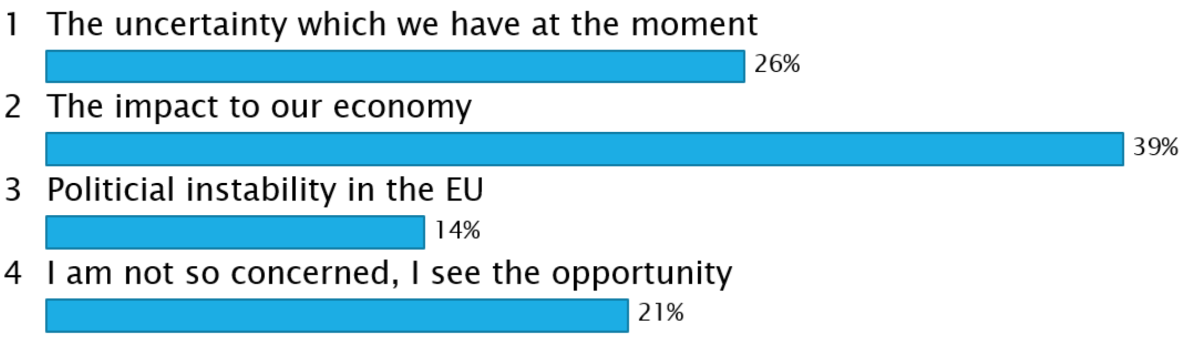


Figure 2: Conducted among 103 participants

Regardless of the chances of a cliff edge Brexit, The Netherlands and Ireland are by far the most affected by the Brexit of the 27 EU member states. As seen in figure 3, any restriction on British free trade is inevitably at the expense of exports, prosperity and employment. Despite the belief that the negotiators understand the mutual benefits of a controlled exit, it is important for Dutch and Irish companies to start preparing for every scenario.

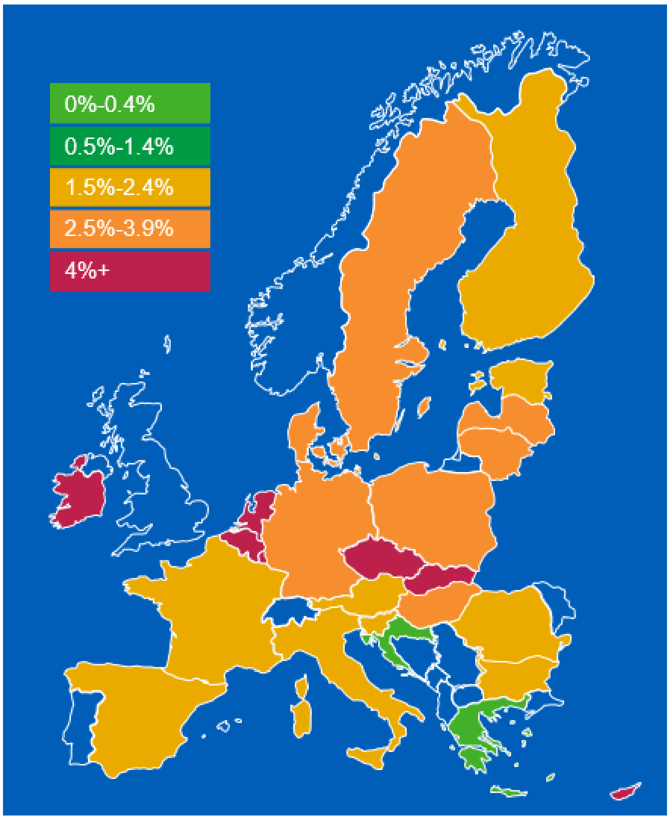


Figure 3: Exports of goods to the UK as % of GDP (Source Beetsma et al, in Wyplosz, 2016)

The Irish Perspective

It is no secret that the Irish feel regret for the United Kingdom to be leaving the European Union. Since joining the EU in 1973, UK-Ireland relations have changed for the good. But the Irish also respect the will of the British people, and their ambition is to make the best of a bad situation. Despite the UK now leaving the EU, it is important for Ireland to hold on to a strong bilateral relationship.

The UK is a vital partner for the Irish economy. Besides the issues concerning the border with Northern Ireland and the economy, there are countless other issues that need to be solved. Examples are fisheries, cooperation in criminal justice, academic research and aviation.

In Ireland, already an immediate effect of the Brexit is felt in the economy. Growth in exports to the UK slowed from 12% in 2015 to 2% according to Enterprise Ireland, a state owned agency responsible for supporting Irish businesses in the manufacturing and internationally trading services. Enterprise Ireland claims that the slowing growth of exports to the UK show that the impact of Brexit on Irish companies has already started. Due to the importance of the UK on the economy of Ireland, Brexit is a massive challenge for Irish businesses. In fact, Brexit marks the most significant change for Irish businesses in the last 50 years. Already, the ongoing uncertainty over Brexit negotiations and currency volatility are a serious immediate issue for Irish companies.

Hence the Irish government have set five goals for its businesses in order to overcome the immediate aftermath of Brexit:

- Consolidate UK market share
- Sustain businesses / sectors with greatest exposure to UK: Construction, Consumer, Agritech
- Intensify innovation and lean initiatives to drive competitive advantage in all export markets
- Expanding the client export beyond UK
- Develop & implement a post-Brexit strategy for 2017-2020

The level of dependence of companies in the United Kingdom are mostly found in traditional business sectors. Some other Irish sectors have 80%+ exports to the UK. These include beef (the biggest single export to the UK of >€1bn), building, energy management, construction products, mechanical engineering and furniture.[2]

Despite the looming threats, only few Irish companies have already prepared for Brexit. According to research of Enterprise Ireland in 2017, 62% had taken 'no measures to respond to Brexit' during the past 6 months. However awareness in Ireland is gradually increasing. This includes the focus at Irish companies on the need for market diversification. The Eurozone is considered as an attractive opportunity for Irish business to focus on. Out of the clients surveyed by Enterprise Ireland, 65% who don't currently export to the Eurozone say they plan to in the next 12 months.

The Dutch Perspective

As Ireland, the Netherlands also wished for a Brexit not to have happened. For more than 80% of the voting in the Council of the European Union, the Dutch voted the same as the UK. It shows the United Kingdom is a likeminded country within the EU, and one of the Netherlands most important partners. In fact, for the Netherlands the UK is the most important trading partner after Germany. In 2016, the export value of Dutch goods to the United Kingdom was 39.4 billion euros. The value of Dutch imports was 21.7 billion euros in goods from the United Kingdom.[3] Hence, much is dependent on the EU-UK negotiations. The government of the Netherlands has expressed its willingness to cooperate with Ireland in order to mitigate the risk and exposure to the Brexit.

As for the economic outlook, prospects for the Dutch economy remain promising. However, due to the Brexit, a depreciation of the pound and a negative growth between NL-UK trade are already seen. 9% of UK exports go to the Netherlands and count for 3% of Dutch GDP. Therefore, roughly 200.000 jobs in the Netherlands are reliant on trade with the United Kingdom.[4]

Dutch companies should also take into account the risk of more time for customs operations. As a 'transit country', an increase in customs procedures and costs can affect multiple sectors. Therefore, Dutch businesses should already prepare and see if they have to reorganize their customs handling. Many companies do not even have experience with import from, or export to, a country outside the EU. According to research by KPMG Meijburg & Co, more than 35,000 companies are involved, and more than 30 percent of trade with the United Kingdom is done by companies that are not yet familiar with customs outside the European Union.

However, the Brexit is not only considered doom by the speakers at the seminar. For the Netherlands, the Brexit could also create new opportunities. It forces Dutch companies to diversify to other markets and to attract new businesses. In addition, the Netherlands could be an attractive alternative to the United Kingdom for companies to settle. There is already interest from the finance sector, but also other sectors such as ICT. Until now, 13 multinationals have already confirmed to relocate their headquarters and/or manufacturing to the Netherlands and more are willing to come. The Dutch government is already actively promoting the Dutch economy in order to attract these new businesses.

[2] Enterprise Ireland, 2017
[3] Statistics Netherlands (CBS), 2017
[4] VNO-NCW, 2017

How can KPMG help?

KPMG advises all companies to start preparing as soon as possible. Companies should anticipate on multiple scenario's concerning the outcome of the Brexit negotiations. To do that, companies need to break down Brexit into specific areas. This includes the potential currency impact of a hard Brexit, and what that would mean for its customers. In addition, a critical assessment should be conducted on the supply chain. It is important to know what the effects are on tariffs on raw materials, work-in-progress inbound, finished products outbound and the additional costs on operations.

Dutch and Irish companies should no longer ask themselves whether to do something about Brexit. Instead, they should already focus on how to adapt its strategy and operations, and whether it needs to change the supply chain in response to a variety of scenarios.

What does KPMG do?

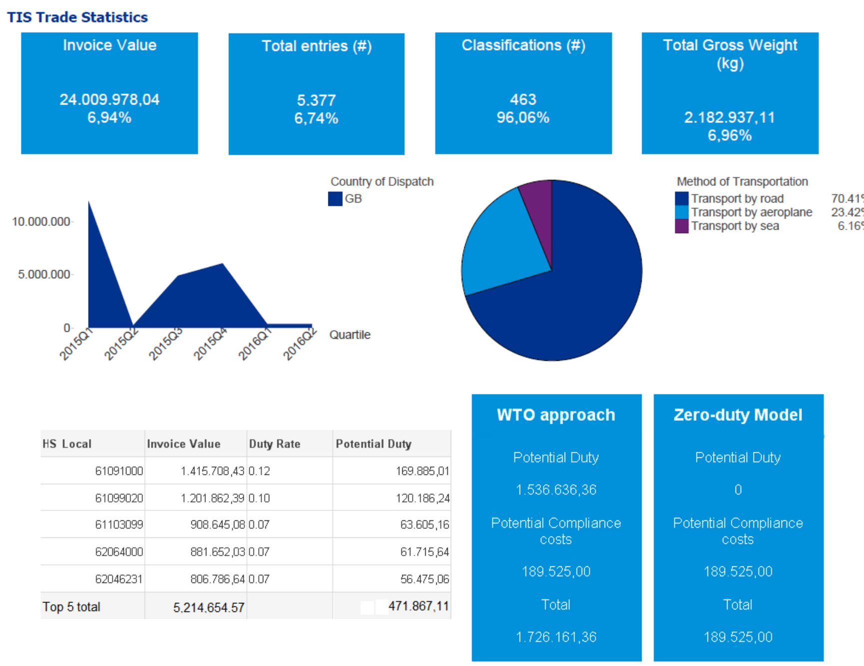
- ✓ Research and analysis on Brexit for clients
- ✓ Organizing seminars for knowledge sharing
- ✓ Customs analysis
- ✓ Supply chain analysis
- ✓ Deal support
- ✓ Immigration support
- ✓ Strategy consulting

KPMG

In addition, preparation should include building up reserves for higher import duties or customs duties on, for example, components imported from the UK. It is now important to make the process as smooth as possible and keep the adverse effects for the Dutch and Irish economy and its businesses as small as possible. KPMG is ready to perform a Brexit impact analysis for these businesses and to assist with an effective response, both strategically and operationally.

Brexit Scan

With our 'Brexit Scan' and its use of data analytics companies can easily identify risks and opportunities and start to prepare for Brexit. The Brexit Scan is a tool specifically designed within KPMG's Tax Intelligence Solution (TIS) that analyzes customs and statistical data to identify risks and opportunities. Various analytical checks are carried out to turn data into value. The scan analyzes the impact of Brexit (additional customs duties and compliance costs).
The results of the Brexit scan, in combination with the company's business structure, will enable companies to reduce risks and identify opportunities at an early stage. A Brexit scan can be performed on all trade from the UK to the EU and vice versa.



HS Local	Invoice Value	Duty Rate	Potential Duty
61091000	1.415.708,43	0.12	169.885,01
61099020	1.201.862,39	0.10	120.186,24
61103099	908.645,08	0.07	63.605,16
62064000	881.652,03	0.07	61.715,64
62046231	806.786,64	0.07	56.475,06
Top 5 total	5.214.654.57		471.867,11

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