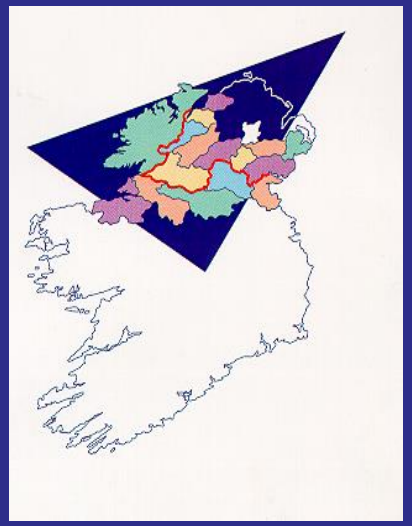
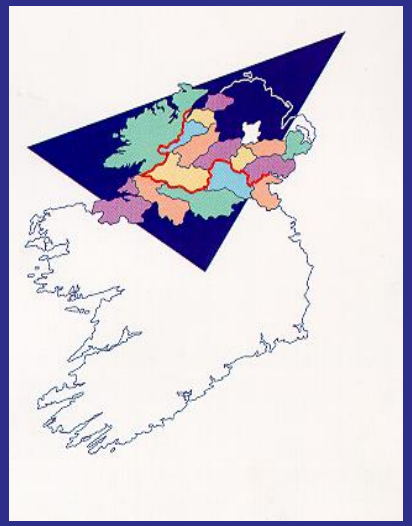


Brexit and the Ireland/N Ireland Border Corridor

Seanad Special Select Committee on the UK's withdrawal from the European Union

Wednesday 7th June 2017

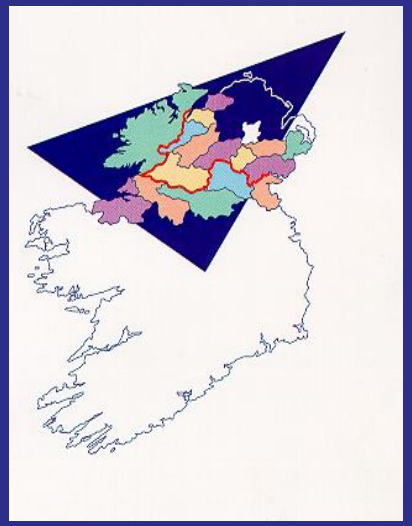


Brexit and the Ireland/N Ireland Border Corridor

Cllr PJ O'Hanlon

Cathaoirleach,

Monaghan County Council



Economic Impact of Brexit on the Ireland/N Ireland Border Corridor

Mr John Kelpie

Chief Executive

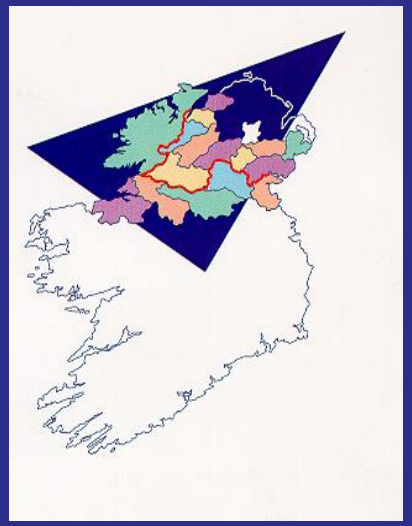
Derry City & Strabane District Council

Economic profile of the Border Corridor 2017

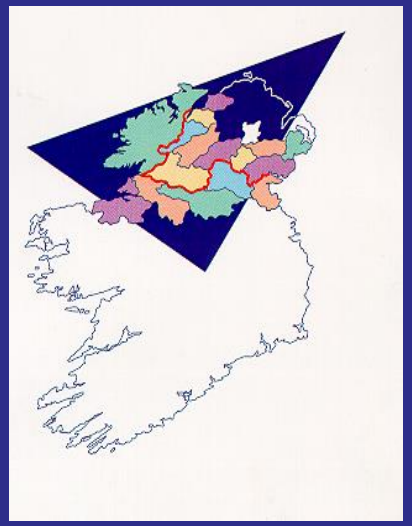
The Border Corridor lags behind the national or regional averages in areas such as productivity, labour participation rates, household incomes, despite the fact that it has received substantial EU Funding in the last 20 years

Some of this can be explained by the economic structure across the corridor – sectors in which firms operate, size and ownership of firms, extent of innovation and export activity

Whilst there are differences across the corridor, Brexit represents a common challenge. ‘The sum is not the same as all the parts.’



Brexit will impact all areas



Economic Impact:

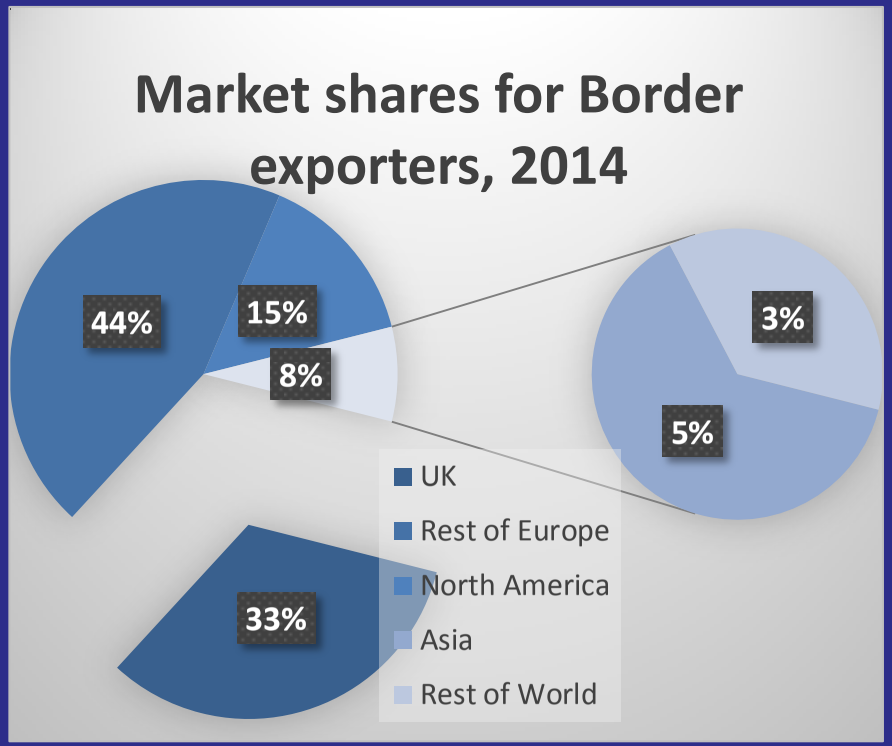
Exiting EU Single Market and Customs Union will severely impact on:

- Trade
- Agri-food/Fisheries
- Transport/Logistics
- Employers/employees – Immigration
- Cross border commuters

Trade: Southern Border Councils

€3.30 in every €10 goes to the UK market…

- 33% of exports by firms in the Border Counties go to the UK
- The UK is the second biggest export market for firms in these counties after the rest of the EU and bigger than North America, Asia and the Rest of the World combined
- More than half of Border Counties' exports come from the Agri-food, Financial Services and the Construction/ Engineering sectors
- Of the 5,000+ different types of products sold to the UK the largest 10 account for 30% of total trade

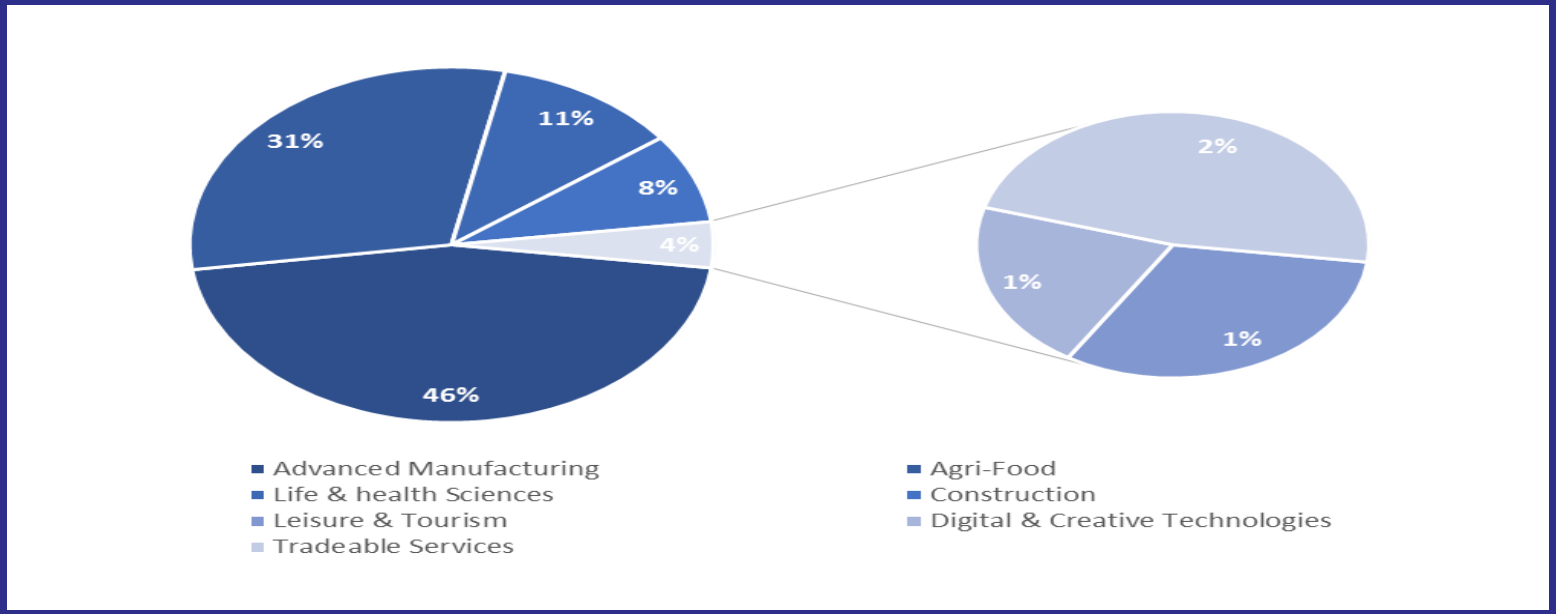


Source: ABSEI and UUEPC analysis

Trade: N Ireland Border Councils

£2.20 in every £10 of external sales goes to the EU

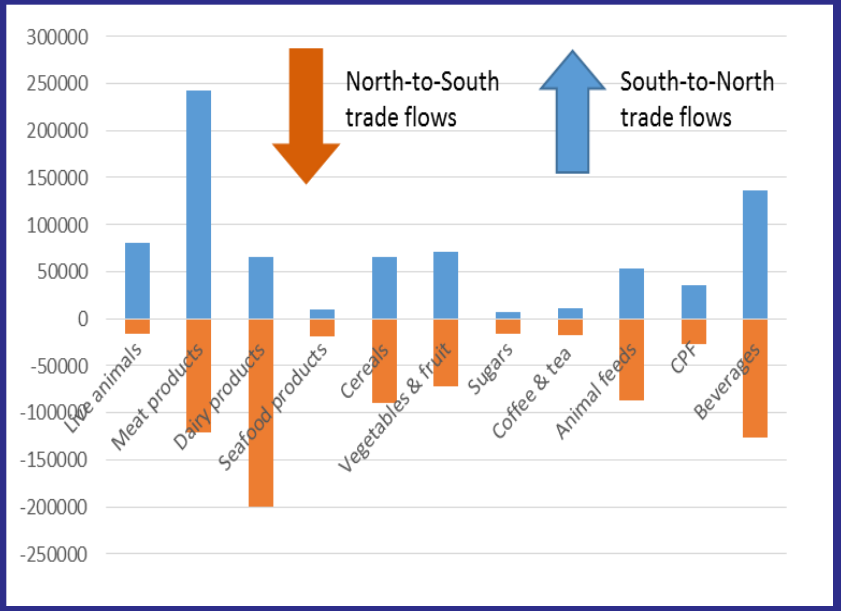
- 22% of sales by firms in the Border Council areas are to the EU (compared to 10% of NI sales in general)
- The Republic of Ireland is the second biggest external market for firms in these Council areas after GB and much bigger than USA, Canada or other EU member states
- 77% of Border Council exports come from the Agri-food and Advanced Manufacturing sectors



Source: Invest NI and UUEPC analysis

Agri-food sector

- In recent years the Single Farm Payment has accounted for more than 87% of small farm incomes in some cases
- 10% of employees in the Border Councils in agri-food sector



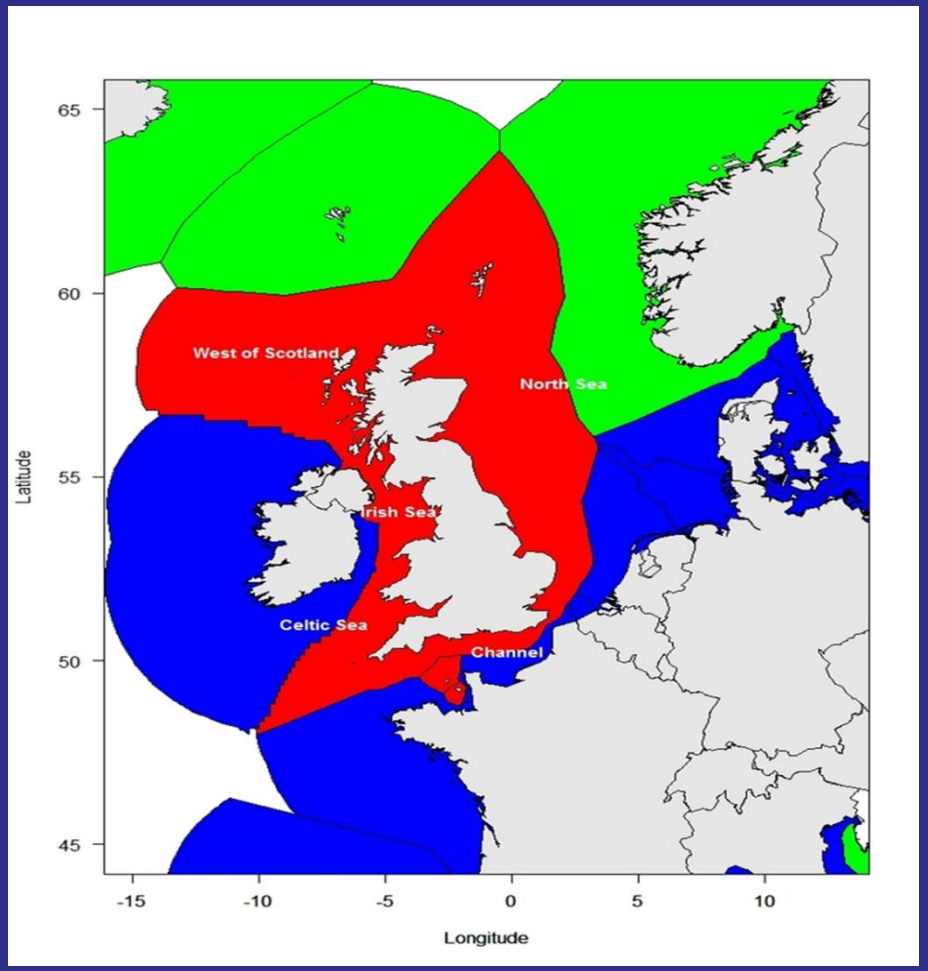
Cross-border and Ireland/GB trade flows are essential

- 35% of the milk produced in NI in 2015 sent to RoI (c.750m litres); 2% of milk produced in RoI in 2015 sent to NI and another 8% exported to GB
- 45% of Irish meat products sent to NI (7%) and GB; c.18% in the other direction

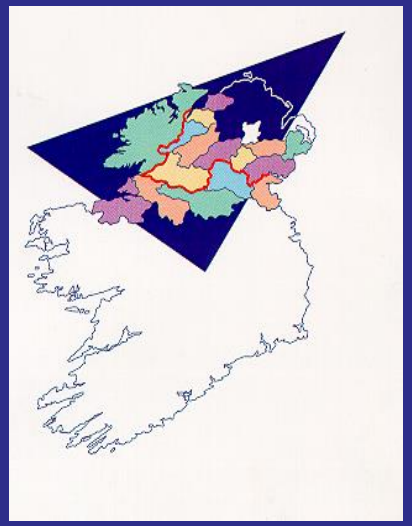
Subject to 20-45% tariffs under WTO rules

Fisheries sector

- 65% of the Irish landings and 40% of the value comes into Co. Donegal
- 7% of UK landings and 6% of value into Co. Down – worth >€100m
- Both dependent on access to fishing beds (blue & red)
- Importance of migrant labour to the seafood industry in both extraction and processing – between 30 and 55% of the labour force.



Sources:
Map from Sean O'Donoghue
Statistics from UK Sea Fisheries, 2015 and SEMRU WP

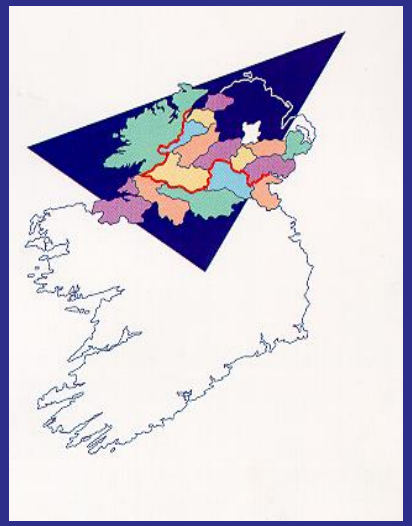


Agri-Food and Fisheries key risks

- The concentrations of businesses and in employment in these industries in the Border Corridor does leave the area exposed to risk.

- There is a need to recognise that many of the farm, fishing and indeed seafood/agri-food enterprises are small in scale and of a low turnover making them more exposed to the risk of change

- Important also to note the reliance of both industries on EU and non-EU migrant labour both for ‘extraction’ and processing – in some cases as many as 50% of employees – raising a serious question around whether this is a case of cost, willingness to do the job or skills.

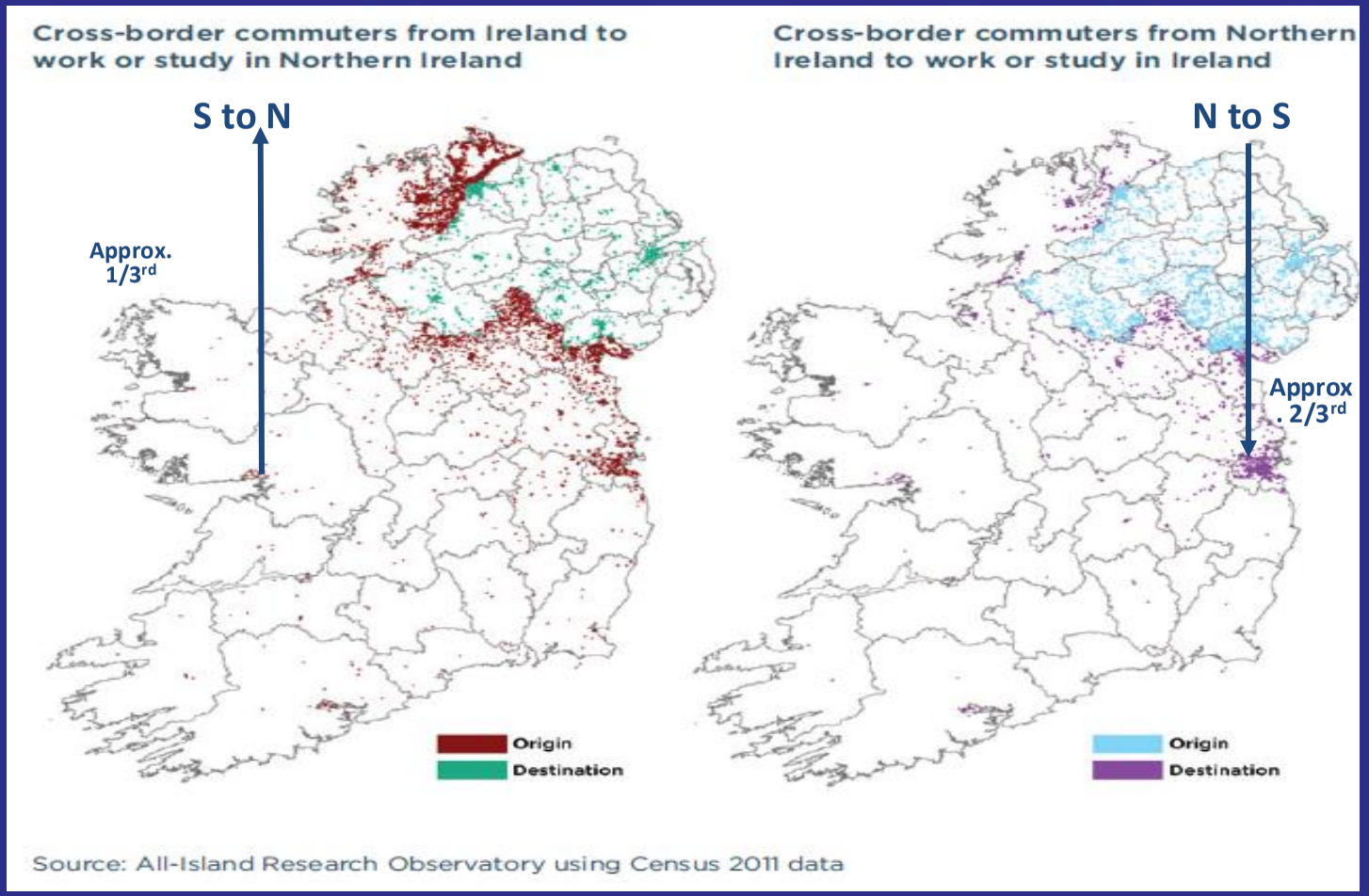


Transport and Logistics

- 499km of border stretching from Carlingford Lough to Lough Foyle
- Divides rivers, fields, farms, businesses
- 277 border crossings
- 6,000 lorries cross the border every day, if 8% subject to customs checks = 500 lorries per day. Random checks so **all** must build in extra travelling time – significant economic cost
- Many lorries crossing border to and from ports.
- Warrenpoint port third largest in UK. Services business across the border corridor eg Quinns cement

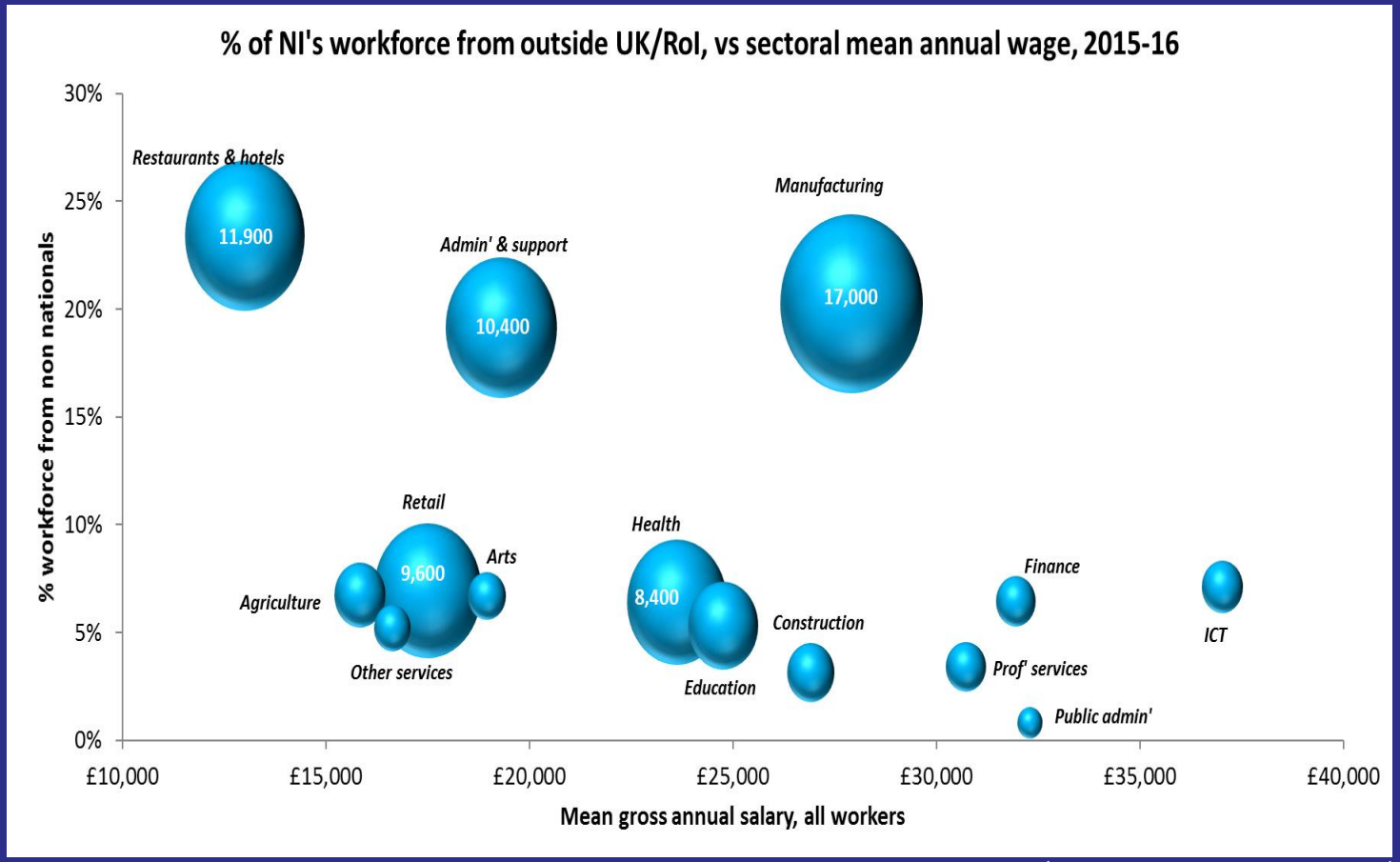
Cross-border commuters – work/study

25k – 30k commuters cross the border daily



Immigration is a key source of labour

Accessing labour after Brexit – an issue for NI



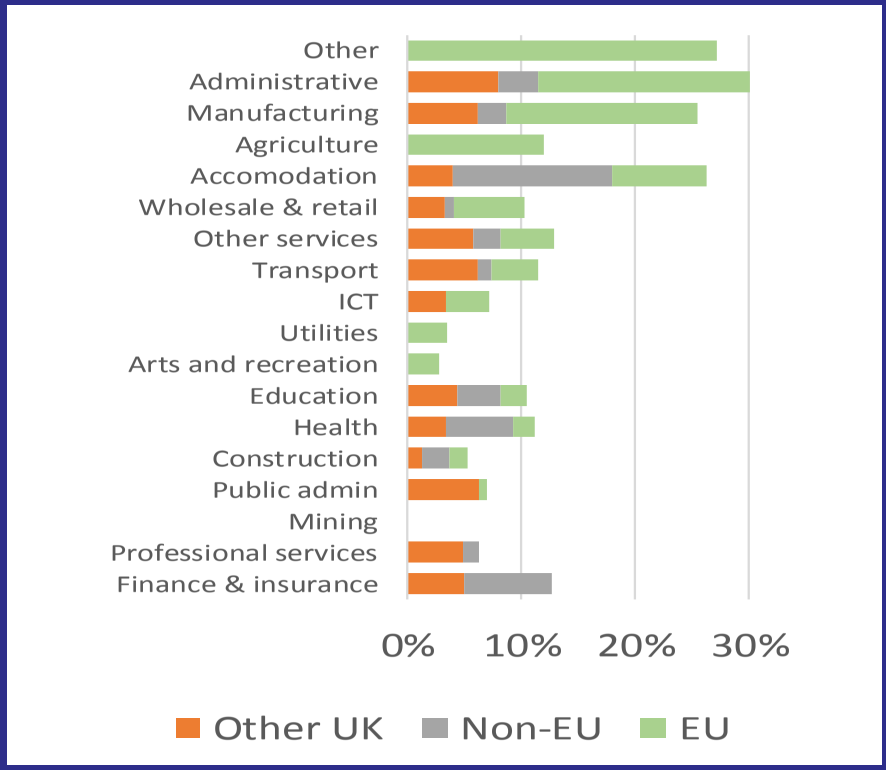
Source: LFS (4 quarter average to Q1 2016)

Note: National refers to anyone from UK or RoI and non national outside UK/RoI

Size of bubble represents total stock of the sectoral workforce in 2015 comprised of non nationals

Border Councils (NI) receive almost 50% of NI's new migrant population

- Since 2002 over 67,500 non-UK residents based in the council areas have applied for a national insurance number
- This is approx. 47% of the total NI applications in this period
- 70% of applications are from the EU
- Across Northern Ireland some sectors draw in significant levels of migrant labour, notably Administrative, Manufacturing and Accommodation which all employ 25+% from outside NI
- Health and Retail, two of the big employers employs c10% of employees from outside NI

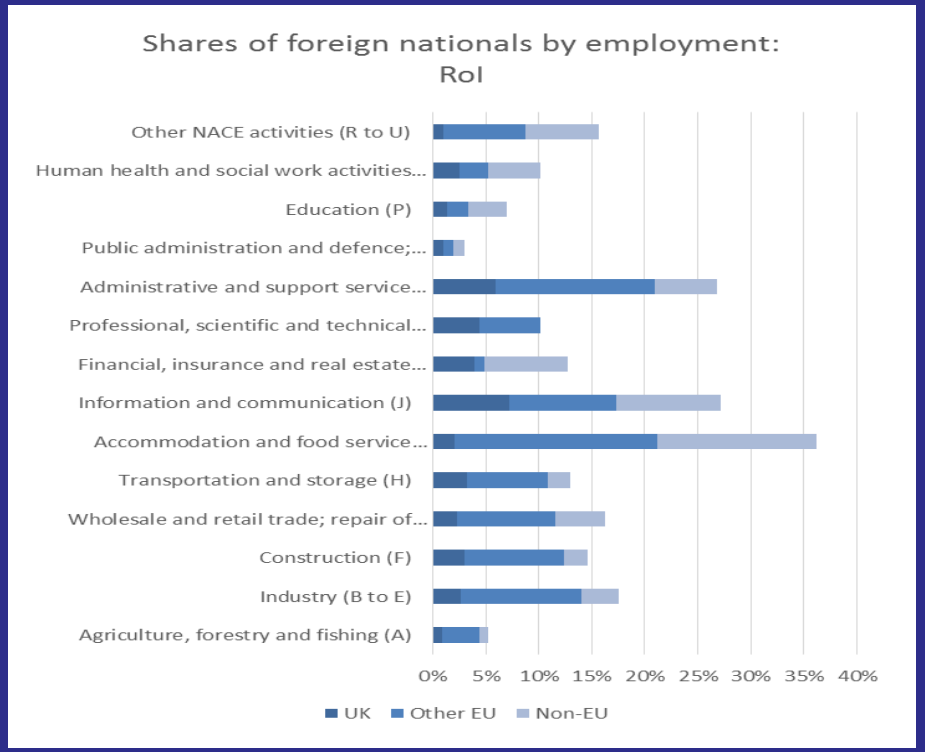


Source: Labour Force Survey, UUEPC

Note: 'Other' is households as employers and extraterritorial employers

Border Councils (Irl) receive around 20% of the migrant population

- Since 2002 over 250,000 non-Irish residents based in the council areas have applied for a PRSI number
- This is approx. 18% of the total RoI applications in this period (while the counties account for 10% of total population).
- 12% of applications are from the UK
- Accommodation & food, Administrative services and ICT all employ 25+% from outside RoI (more than 5% from UK)
- Health and Retail employs 10-15% of employees from outside RoI



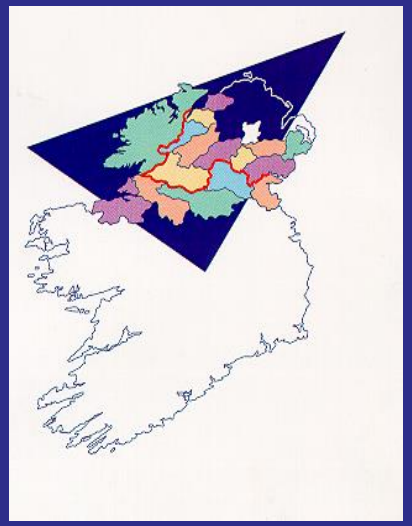
Source: CSO

Economic Solution

The Public and Private sector agree that an Economic Border will be disastrous for the economy and people of the Border Corridor and Ireland/NI as a whole.

A solution is currently being developed by the business community consisting of the following key principles:

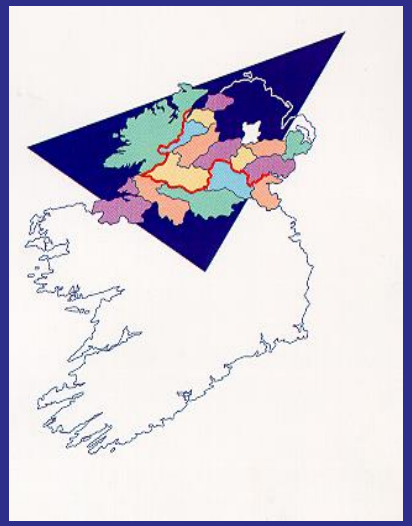
1. Allow NI Producers tariff free access to ROI and Single European Market
2. Maintain the right of NI Producers (goods and services) to freely access the GB market
3. Allow ROI producers free access to GB market (€1bn per week ROI/GB trade; 60% ROI agri-food to GB)
4. Quality and traceability of product essential but could be developed
5. Free access to labour North and South



Economic Solution

Both Governments should immediately address the economic imbalance of Border Corridor.

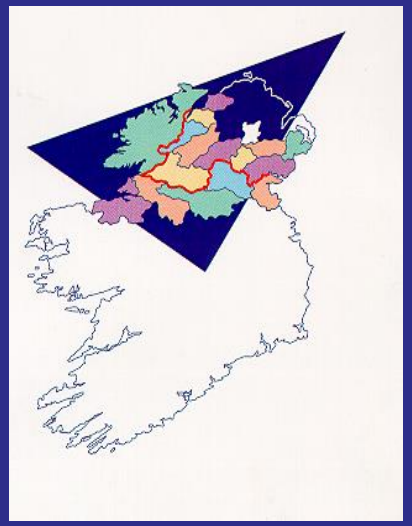
1. Invest in Infrastructure
   - Roads, North South and East West Economic corridors (A5, N4, N16, Southern relief road, Enniskillen Bypass, NW Bridge)
   - Continued access to TENS T funding
   - Extension to the rail network
   - Stability – Energy Supply
   - Broadband/ Telecomms



Economic Solution

2. Invest in Business.

- 97% Border Businesses not prepared for Brexit (ITI statistics). SME's the back bone of Border Corridor. Investment plans have been put on hold. Funding should be made available to assist with preparation.
- Information/Advice regarding tariffs required
- Agrifood industry Facing particular challenges .Southern border industries impacted now and need assistance now. Eg mushroom industry, Monaghan.
- Agriculture. Need for properly funded transitional arrangements.

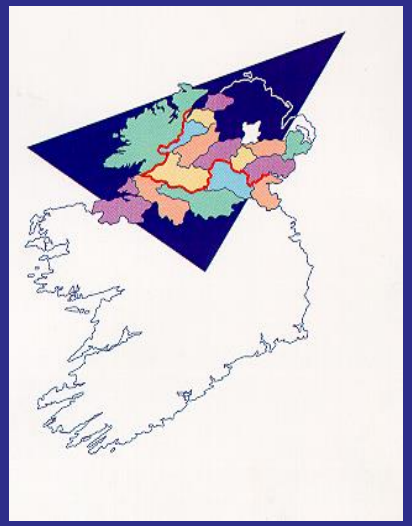


Community/people Impact of Brexit on the Ireland/N Ireland Border Corridor

Mrs Joan Martin

Chief Executive

Louth County Council

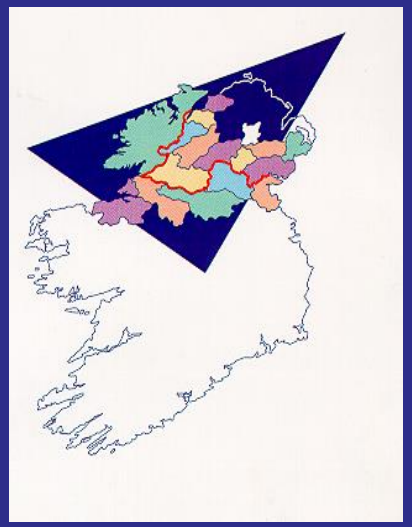


Profile of the Border Corridor

The Border Corridor suffered more than any other part of Ireland/NI during the political conflict which contributed to a weaker economy, infrastructure & skills deficit, higher unemployment, weak inward investment and social exclusion.

Border communities and people suffered disturbances to their way of life on a daily basis.

The Peace Process and the Good Friday Agreement 1998 enabled us to address these issues and it is essential that all strands of the GFA are maintained post Brexit.



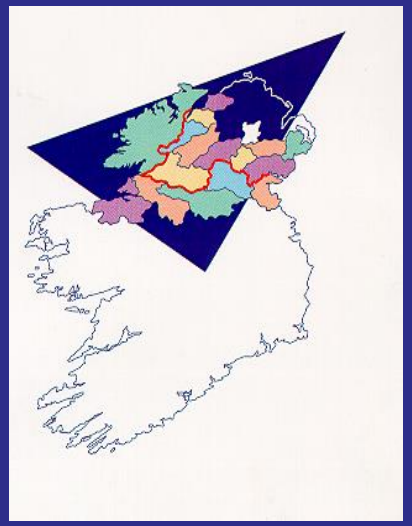
Key sectoral impacts

- EU Funding
- Healthcare
- Education
- Tourism
- Border Communities

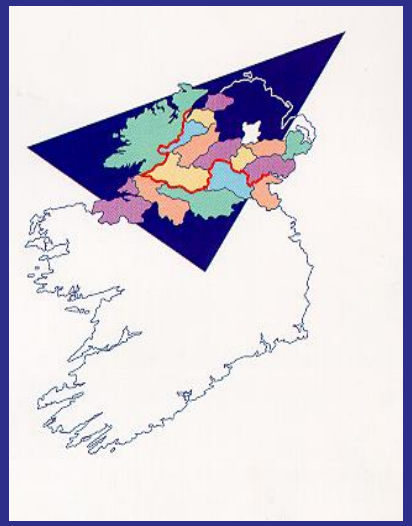
EUROPEAN COMMISSION

EU funding

- In the last 20 years EU Funding has enabled us to modernise the Border Corridor
- €3.5bn is allocated to NI programmes from the EU from 2014-2020. CAP payments account for 70% of this
- Those programmes with a cross-border element (INTERREG VA and Peace IV) will make €469m available up to 2020
- The focus of the Programmes
- INTERREG Programme – Economic Development
- Peace Programme – Community reconciliation, social inclusion
- Both Programmes must continue as Cross border co-operation is still not easy. The Peace Process must be protected.



EU Funded Projects

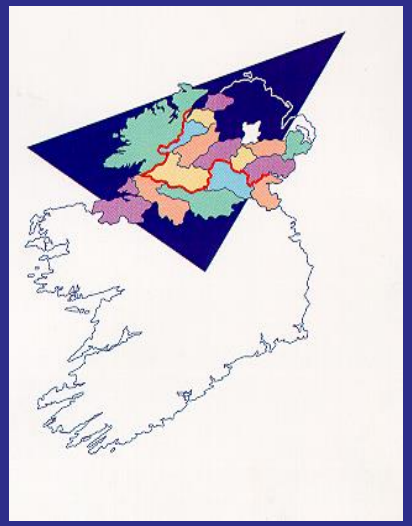


Infrastructure

N.I. Science Park

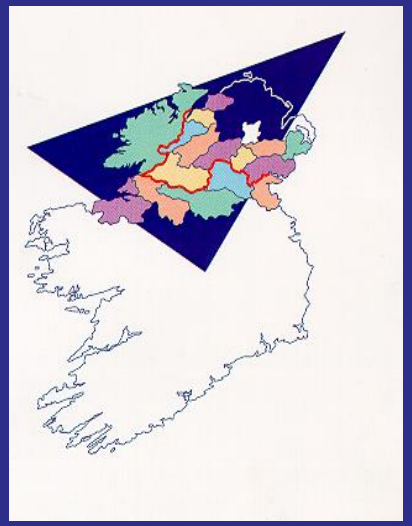
Infrastructure

Newry – Dundalk Road



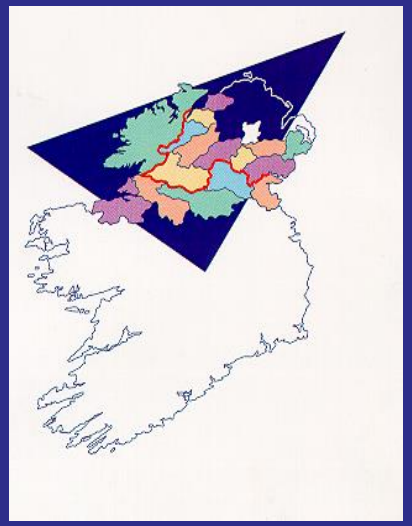
Economic Development

Highlanes Gallery



Economic Development

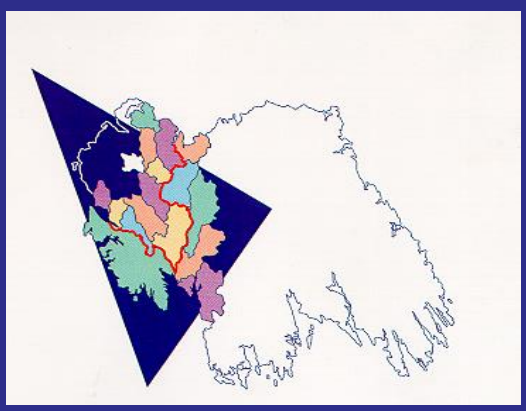
The Bright Room

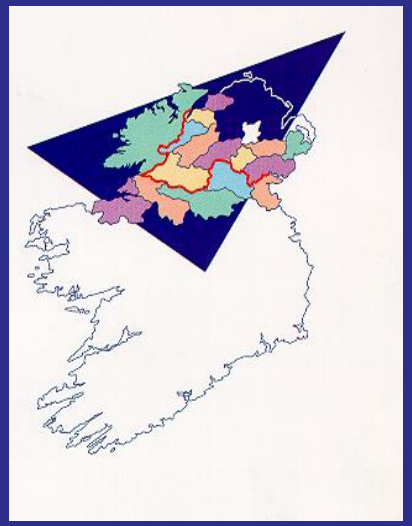


Environment

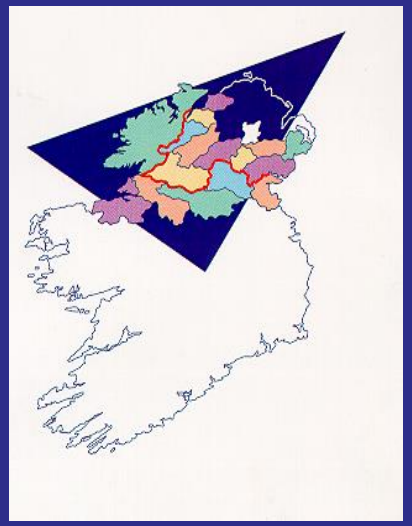
Biodiversity/Greenways

Energy





The Peace Bridge



Impact of Brexit

When the UK exits the EU

1. Ireland will lose the

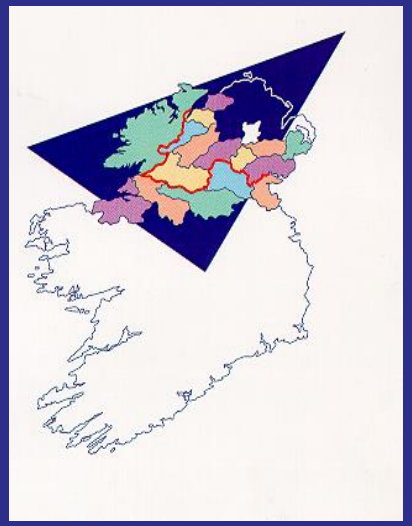
- Ire/NI/Scotland INTERREG Programme
- Ireland/Wales INTERREG Programme
- Peace Programme

2. N Ireland Border Councils will also lose EU money allocated by NI Govt departments for

- economic,
- rural development
- tourism programmes.

The opportunity to access EU funds such as;

- Horizon 2020, Erasmus, Atlantic Area Programme, INTERREG Europe, Northern Periphery.



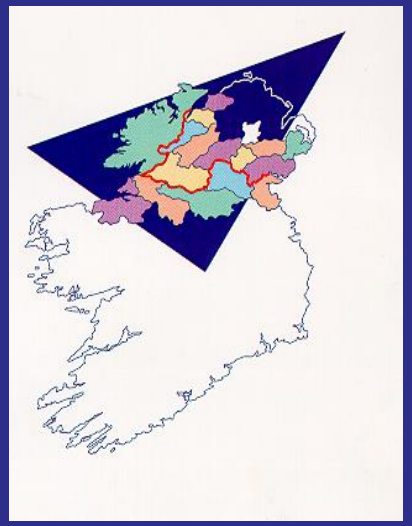
Healthcare

- Access across the Border for Healthcare is critical
- Radiotherapy Centre Altnagelvin – Donegal patients alternative centre is in Galway!
- Daisy Hill Emergency Dept Newry – Louth patients alternative is in Drogheda
- NI Children travel to Dublin for paediatric care and heart surgery
- Numerous NI Patients treated in ROI (triple by-pass etc.)
- ROI patients treated in NI (Gynae, Orthodontics)
- CAWT projects facilitate cross border health service linkages. (Currently funded by INTERREG)

Statistics

ROI Residents – Daisy Hill, Newry 2016-2017

General Admissions	
• Consultants	124
• Regular Attendees	642 – Nephrology - Kidneys
• Day Cases	119 – ENT 85%
Out Patients	390
Prominent Specialities	
• Joint Consultation Clinics	118
• Obstetrics	62
• Fractures	45
Emergency Care - 2015/16	
Total	708



Higher Education

- South West College, North West College and Southern Regional College – NI
- Letterkenny, Sligo and Dundalk Institutes - ROI

Student/Lecturer intake from each side of border

- Universities – many EU funded projects in Border area which have helped transition the border area.
- Erasmus programmes for students across Europe/ Horizon 2020
- Professors and students must be able to travel freely.
- Higher fees for N I students – impact on numbers of students in ROI? No right to work after study
- EU students less likely to travel to N Ireland?

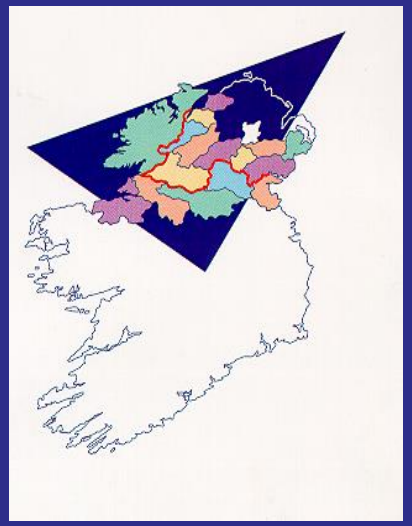
Border Tourism

- Over 3.3 million visitors per annum with more than a third of this in two Western council areas – Donegal and Fermanagh & Omagh.
- Tourism is an economic driver. Creates employment and export earnings. Freedom of movement critical for future sustainability.
- Some Tourist attractions straddle the border. Eg Unesco Geopark, Fermanagh. Future EU funding for ROI element but not NI?
- Challenge to grow tourism numbers and to move from a dependence on 'family and friends' visitors and older tourists than in other parts of Ireland.
- Attractions, such as those in Donegal, Derry city and the benefits from Ireland's Ancient East and the Wild Atlantic Way need to be further exploited across the corridor.
- Given access to the region is largely through ports and airports in other areas the question of infrastructure access is a key consideration.

Community Impact

- Border communities face the threat of their whole way of life changing
- Communities have worked seamlessly across the border for many years
- Communities just recovering from political turmoil
- Brexit will once again divide these areas.
  - Families, relatives across border
  - Farms divided by border
  - Church in N Irl and graveyard in Ireland
  - School which crosses the border
  - Journeys along border involve multiple border crossings.
  - cross border shopping, socialising

This impact will not be felt anywhere else



Brexit Impact

Loss of Peace Funding

Border corridor depends on Peace money to

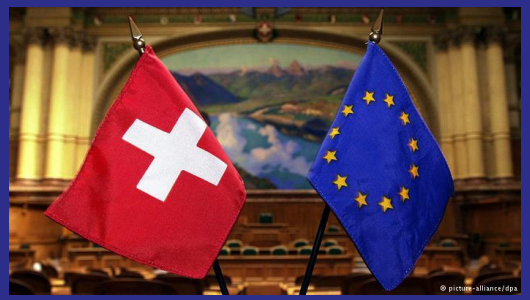
- Foster cross community cooperation.
- Encourage social inclusion
- Breakdown barriers
- Address negative economic impact of the conflict
- Peace Process essential in this regard also.
- EU member states also recognise importance of Peace and so supported unique Peace Programme.

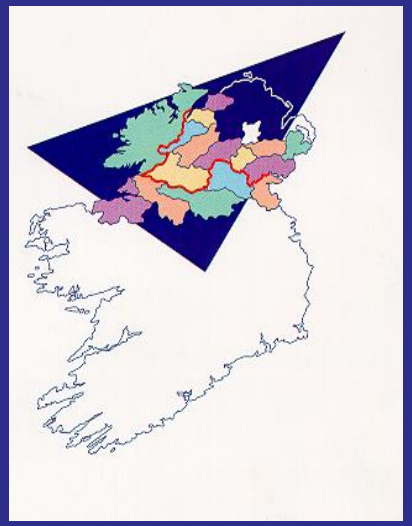
Border Local Authorities have been at the forefront of these developments. Recognise the need to preserve Peace Process.

Solution

Peace and INTERREG Programmes continue

- Current examples of EU/Non EU countries drawing down these funds
- Peace unique to Irl/N Ireland but is drawn from European Territorial Cooperation Fund, like INTERREG
- Requirement
  - Political will Dublin, Stormont, London and Brussels
  - Financial commitment





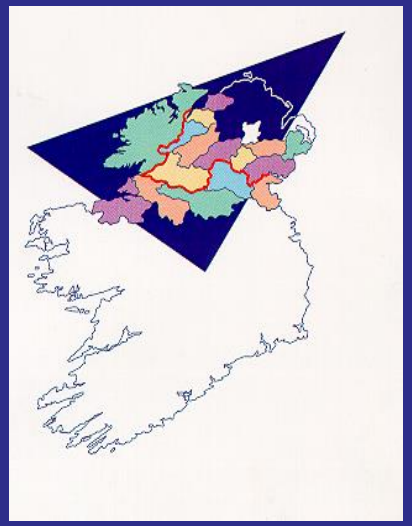
Good Friday Agreement

The three strands of the Agreement must be protected.

- Strand One - power-sharing Assembly and Executive.
- Strand Two - Irish dimension to the governing arrangements for Northern Ireland. The North–South institutions (the **North–South Ministerial Council (NSMC)** and the **North–South Implementation Bodies** encourage co-operation that benefits both Northern Ireland and the Republic of Ireland.
- Strand Three - ‘East–West’ institutions (the **British–Irish Council** and the **British–Irish Intergovernmental Conference**) to encourage co-operation and develop good relations between Britain and Ireland.

North South Ministerial Council
Joint Secretariat

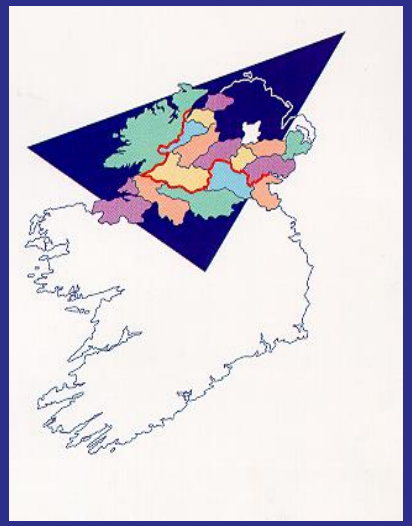
An Chomhairle Aireachta
Thuaidh Theas
An Chomhrúnaíocht



Common Travel Area

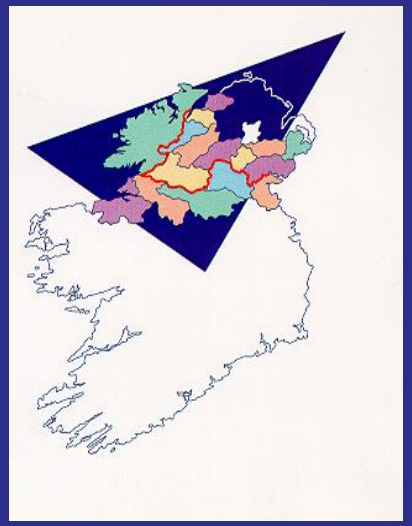
- Common Travel Area must continue.
- Free movement of people is essential to maintain the existing way of life for those who live and work along the border corridor
- Access to cross border education and health vital.

This is particularly important for residents in the ROI border counties who didn't vote to leave the EU



National Planning Framework

- The National Planning Framework is an ideal policy instrument to ensure that the objectives to address the Economic Border and Peace Process issues now being presented by Brexit are also embedded in National Policy.
- Border Corridor Local Authorities request that cognisance is taken of these issues in the formulation of the National Planning Framework.



Summary

Cllr Stephen McCann

Chairman

Fermanagh & Omagh District Council

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THE IMPACT OF BREXIT ON THE DRINKS INDUSTRY

January 2017

Ciaran Fitzgerald
Agri-Food Economist

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Executive Summary

The drinks industry is a major contributor to economic activity across the island of Ireland. The Bord Bia Exports Performance and Prospects Report 2016—2017 published recently (January 2017) valued growth in beverage exports at €1.4 billion, an increase of 4% since last year. The sector exports drinks to 139 markets worldwide and supports over 200,000 jobs in the drinks and related hospitality sectors with an annual wage bill of €4 billion and purchases over 300m litres of milk and over 200,000 tonnes of Irish grains every year.

The key drivers of growth include growth in overall demand for premium drinks categories as well as specific growth in whiskey demand including in emerging markets in Asia and Africa allied to the US. The top 5 markets are the United States, UK, Canada, Germany, and France. However, in the wake of the Brexit vote, exports to the UK declined by an estimated 3% to €380 million. The UK remains a hugely important trading partner for the Irish food, drinks, and tourism sectors. Sterling devaluation following the UK's decision to leave the EU has already had short term impacts including; a surge in cross border shopping, increasing the price of Irish products in the UK market and increasing the cost of Ireland as a tourism destination.

This report has been commissioned by the Alcohol Beverage Federation of Ireland (ABFI), the trade association representing brewers, distillers, brand owners and distributors in Ireland. Ciaran Fitzgerald, an agri-food economist has undertaken the study on behalf of ABFI. This report sets out a series of recommendations which the sector is calling on the Government to implement to reduce the economic impact of a hard Brexit which will have a profound impact on the sector combined with the proposed introduction of the Public Health (Alcohol) Bill.

Key recommendations

- **The Government must reduce excise duties on alcohol.** Ireland has the most expensive alcohol in the EU at 175%[1] of the EU average. This penalises consumers, impacts tourism and negatively impacts the sector's economic contribution.

- **The Government should reintroduce the ban on below cost selling**. High excise duties combined with sterling's devaluation means consumers are incentivised to shop north of the border. The introduction of MUP as proposed in the Public Health (alcohol) Bill would further widen this price differential and only further incentivise cross border shopping. This would result in loss of exchequer revenues and impacting jobs and rural economies.

- **Introduce tax and regulatory measures to incentivise the sector.** Government must also look at tax and regulatory measures to incentivise companies in the food and drink sector that have huge Irish economy supply chains to remain and grow their businesses in the Republic of Ireland.

- **The Government must not impose additional costs on business;** a hard border and measures such as structural separation, advertising restrictions and health labels will increase the cost of doing business in Ireland and effectively act as major barriers to start ups in the drinks with impacts on the nascent craft brewing and distilling sectors as well as existing players. The Government should:
    - Ensure a hard border is not reintroduced between north and south

[1] Eurostat, June 2016

  - The Government should adopt the standard EU label for alcohol when this is agreed rather than imposing a costly "Ireland only" label as per the PHAB
  - On advertising, the Government should put the existing codes of practice on volume and placement monitored by the Alcohol Marketing Communications Monitoring Body and the content code monitored by the by the Advertising Standards Authority of Ireland on a statutory footing

- **The Government must challenge EU State Aid rules to promote future trade with the UK.** It is imperative that Irish business and the Irish Government continue to make the case that such constraints are not relevant and should not apply to those trading predominantly with the UK.

- **Ensure all island geographic indicators for Irish Whiskey, Irish Cream, and Irish Poitín/Irish Poteen are protected and supported**. Co-ordination and agreement between the Irish and UK governments on all matters related to the geographic indicators is imperative for the integrity, protection, and future success of the categories.

- **Assist the food and drinks sectors in gaining market access to new markets.** The Government needs to assist exporting companies by assisting them to gain access to new markets to diversify their businesses

Introduction

ABFI is the trade association representing brewers, distillers, brand owners and distributors in Ireland. Members of ABFI include multinationals such as Diageo, Heineken, and Irish Distillers as well as smaller and newer market entrants including microbreweries- The Carlow Brewing Company and distilleries such as Walsh Whiskey Distillery. An Bord Bia's Export Performance and Prospects 2016-2017 report published this month (January 2017) highlights that that the drinks industry is the jewel in the crown of agri-food and drinks exports. The key reasons for the strong export performance include, growth in overall demand for premium drinks categories as well as specific growth in whiskey demand including in emerging markets in Asia and Africa allied to the US.

The sector employs over 200,000 people directly or indirectly across the country. It is an especially important supporter of employment in rural Ireland. There is a key linkage between the sector and the Irish tourist offering. The most popular fee charging visitor attraction on the island is the Guinness Storehouse and visiting the pub is one of the top attractions for tourists to the country Ireland.

The brewing and distilling sectors have been undergoing a renaissance in recent times with 16 distilleries already in production and a further 13 in planning in 18 counties across Ireland. This growth is remarkable given that in 2013 there were just 4 distilleries in operation in the country. Microbreweries are also growing at similarly impressive levels, with just 3 in operation in 2013 to 90 in 2016 and plans for over 100 by 2020.

The Drinks Industry in numbers

- 2 hundred thousand people employed across regional and rural economy
- 3-4,000 jobs per constituency in Ireland
- €4 billion wage bill every year
- €1 billion spent on grains and dairy every year
- 12,000 farm families supported by the sector
- €7 billion tourist and hospitality sector contribution to the sector
- 650,000 whiskey tourist every year, to increase to 1.9 million by 2025

Figure 1 Economic contribution of the Drinks sector

Public Health (Alcohol) Bill

The Government published a draft Public Health (Alcohol) Bill in December 2015. It contains several measures that if enacted would impact on:

- Price: minimum unit pricing
- Marketing: restrictions on the volume, placement, and content of alcohol advertisements
- Availability: structural separation of alcohol in mixed trading retail premises
- Labelling alcohol products: including a de facto requirement for a separate "Irish" only label

The proposed measures have raised concerns domestically in the alcohol industry but also at EU level as several Member States have submitted comments and detailed opinions regarding potential impacts on the Single Market. The evidence base with respect to the effectiveness for the proposed measures is very limited. The measures collectively will impact on companies large and small including the imposition of additional costs through labelling requirements. The totality of the proposals mean that it will be much more difficult for new products and new companies to enter the Irish market because;

- Advertising restrictions will mean that the amount of advertising space available for alcohol brands will decrease significantly and the proposed content restrictions will limit the ability of brands to differentiate meaningfully.
- Separation and the hiding of alcohol behind dark cabinet doors means that browsing for product and visibility on shelf will be significantly decreased.
- Minimum unit pricing means is not an effective tool to tackle harmful drinking.

While these restrictions will impact on the Irish market only, they will significantly hamper the exporting ability of the sector. While nearly all drinks companies are largely export focused, the Irish market is crucial as a test market for their product and to provide cash-flow. The restrictions in the PHAB will limit these new businesses ability to compete. Beer exports will also be affected as new product innovation will be made much more difficult by the advertising and marketing restrictions- in fact up to 70% of the beer brewed in St James Gate is destined for the export market[2]. Significant export businesses have been built off testing product on the Irish market. This innovation and new product development will be severely hampered with the introduction of the PHAB.

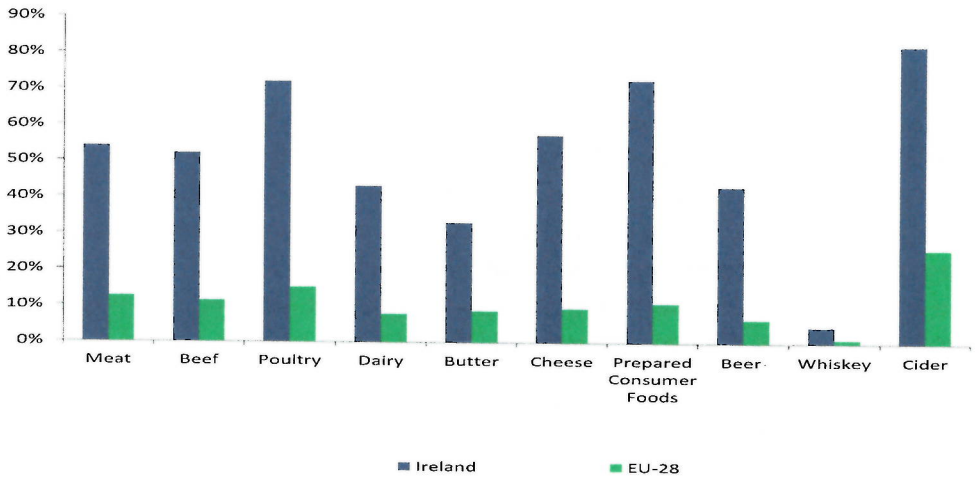
Importance of the UK market

The UK as our closest neighbour is an important market for the drinks exports accounting for approximately 33% of total exports. EU wide analysis by Agra Europe shows that while 45% of Irish agri-food and drink trade is UK related, the average across other EU countries is 9% or only 20% of the Irish exposure

- The UK is Ireland's biggest export market for food and drink, taking €4.5bn worth of exports from Ireland
- The UK in turn exports €3.5bn in agri-food and drink products to Ireland
- The UK accounts for approximately 35% of overseas tourists to Ireland[3]
- UK tourists spent almost €2bn in the Republic of Ireland in 2015-40% of total tourism revenue. Sterling's devaluation means Ireland is now 20% more expensive for those coming from the UK

The UK will continue to be a critically important market for Irish agri-food products. The triggering of Article 50 and the continued uncertainty around Brexit will present significant challenges for the sector- Minister for Agriculture, Food and the Marine, Michael Creed, TD,

Figure 2: UK % of exports by subsector



[2] Diageo interview
[3] Tourism Facts 2015 Fáilte Ireland

The UK is a particularly important market for beer and cider accounting for respectively nearly 50% and over 80% of exports. The Northern Ireland border and euro/sterling exchange rate are significant factors for the drinks industry as cross border shopping for alcohol comes into play particularly with currency fluctuations. Because Ireland has the most expensive alcohol in the EU at 175%[4] of the EU average this is especially relevant.

The combined value of inward and outward trade in agri-food and drink, cross border shopping and tourism into Ireland is almost €12bn. All the above are impacted by fluctuations in currency

The agri-food industry and the tourism sector are the most affected by the Brexit challenge due to the importance of the UK market for food/drinks exports and because 35% of our visitors are from the UK. Both sectors are significant employers in Ireland especially across the rural and regional Irish economy.

The agri-food sector employs;

- From farm to processing is estimated at 260,000 in 2015 according to the CSO, which accounts for 1 out of 8 jobs.
- Overall employment in tourism is estimated to be in the region of 205,000, with the accommodation and food sector alone supporting 143,500 jobs

All island supply chains

ABFI member companies have all island supply chains with some operating as 32 county operations. They also have close supply chain links to the UK market due to its proximity. For instance, companies have sales, marketing, global business and customer support teams in the Republic and Northern Ireland, servicing not just the Irish market but global customers as well as internal business requirements for the UK and globally. In addition, close linkages exist between Ireland and the UK with bottling and canning for both markets done at individual facilities in either Ireland or the UK. In effect these operations require very significant movements of both products and people across the border and Irish Sea every day. This free movement of goods and people on these islands is an essential element to the success of the Irish drinks industry's business model. One ABFI member alone estimates that they have 13,000 cross border movements of goods every year, including raw materials, ingredients, and finished products. Their experience of hard borders in other jurisdictions suggests that delays at border points would add an additional hour or €100 per truck movement to costs.

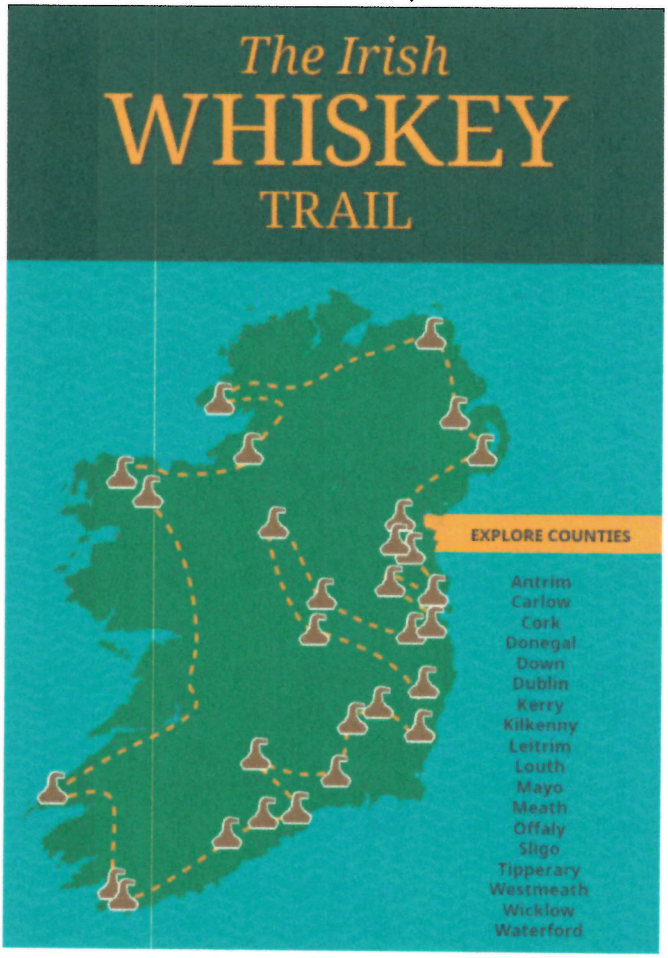
Three all- island geographic indicators exist for Irish Whiskey, Irish Poteen/ Irish Poitín and Irish Cream. This means for example that Irish whiskey distilled in Northern Ireland is equally entitled to use the designation "Irish Whiskey" as a product distilled in the Republic of Ireland. Brexit would add administrative complexity to running drinks businesses on this island. Internationally the EU secures protection for its GIs by registering them in all Free Trade Agreements and by ensuring GIs are protected in WTO agreements such as TRIPS. This ensures that legal recourse is available to rights holders to ensure only legitimated product is sold as a GI in that country.

The decision by the UK to leave the European Union will have profound implications for the Irish economy and the Agri-Food-Drinks and Tourism sectors. Given that Ireland cannot unilaterally devalue the euro, for Irish companies and indeed our regions to continue trading with the UK/sterling area the Irish cost base must be competitive. For those sectors that are heavily

[4] Eurostat, June 2016

dependent on the UK market the result of sterling's devaluation is downward pressure on Irish wages, raw material prices and Irish consumption taxes such as VAT and excise.

Figure 2: Outline of the Irish Whiskey Trail



Impact of Brexit Vote

The initial shock following the UK Brexit vote on the 23rd June was followed by a significant devaluation of sterling vis a vis the euro. Companies across the Drinks/Food and Agri sectors have very real and immediate concerns that the dramatic fall in the value of sterling against the euro will fundamentally undermine their ability to trade from Ireland. This devaluation will also result in a significant loss in trade and decrease Government tax revenues even before we get into the vexed issues of trade and regulatory access post Brexit.

1. Decline in the value of Sterling

An immediate impact of the Brexit vote was to see a significant and swift decline in the value of sterling against the euro of 20%. It moved from an average of 1 euro= 0.72 stg in 2015 to an average of 1 euro = 0.86 stg in 2016 (20% devaluation). This decline has put huge pressure on businesses and regions that trade largely with the sterling area. For both the drinks sector and the agri-food sector at large, the impact of these pressures has ranged from:

- An immediate loss of retail sales from Republic of Ireland to Northern Ireland and the UK (especially online)

In a recent poll our members reported an average of 12% downturn for British tourists spend for July & August compared to the same time in 2015-Adrian Cummins, CEO, Restaurants Association of Ireland, September 2015

- Cost pressure on exports to the UK- we have seen mushroom producers particularly acutely impacted
- The substitution of Irish products by cheaper UK imports on Irish supermarket shelves
- Tourists originating from the UK/NI are experiencing a 25% increase in food drink and accommodation costs compared to 2015.

The fall in the value of sterling by 20% means that products like alcohol which were already 20% cheaper in Northern Ireland than the Republic of Ireland are now up to 40% cheaper. The decrease in sales is not only confined to border regions (a recent survey showed that 25% of consumers had travelled to Northern Ireland pre-Christmas for shopping)[5]. Thus, there is an immediate loss of exchequer revenue. A study by the Drinks Industry Group of Ireland (DIGI) in 2016 shows that employment in the drinks and hospitality sector in the border regions is just over 16,000 ranging from over 7,500 in Donegal to just over 3,300 in Louth. Border regions are particularly vulnerable to both the loss of business to cross border shoppers and to reduced tourism revenues as the spending power of UK tourists has declined by 20%.

2. Potential impact of sterling devaluation on the drinks, agri-food and tourism sectors

An analysis of the historical exchange rate and agri-food and drink export relationship shows that a 1% weakness in sterling results in a 0.7% drop in Irish exports to the UK. If sterling was to weaken further towards the £0.90 mark, this would translate to losses of over €700 million in food exports and about 7,500 Irish jobs[6].

Given the export intensity of the food and drinks sector, it is likely that there will be substantial impacts for both employment and household income in predominantly rural communities because of the weaker Sterling. This potential loss of jobs equates to a cost of €150 million per annum to the State in lost revenue and social welfare costs. Government support is required to ensure jobs are not lost and industry can survive the transition. Time is needed to adjust to the new currency changes and competitiveness challenge.

3. Surge in Cross Border Shopping

The propensity for cross border shopping increases with weakening sterling causing a loss of revenue to the exchequer as consumer's head across the border to purchase their shopping with the relative cost of alcohol a key driver. Analysis of revenue and consumer spending in 2008/9 shows that over €1 billion was lost due to cross border shopping when sterling was similarly devalued in 2009- of this €200 million was lost to Government in VAT and excise foregone with €800 million lost to the retail sector and its suppliers.

Whilst the impact on tax take is significant, the multiplier impact in terms of revenue lost across the regional Irish economy is four times greater. Unless action is taken in the short-term these losses in tax and Irish economy spend are only a small taste of the impact on jobs and exchequer returns that Brexit will bring and this is before negotiations begin to trigger Article 50 in 2017.

The retail sector and the Government through Exchequer returns would normally expect a significant bounce in the last two months of the year as Christmas shopping peaks. However, with Sterling's devaluation a significant increase in cross border shopping has taken place – a 29% increase in cross border traffic volumes on Saturdays mornings has been reported from research

[5] I-Reach survey for MediaCom of 1000 people, November 2016
[6] "Brexit – the challenge for the food sector" published by Food and Drink Industry Ireland (Ibec) Sept 2016

undertaken on behalf of Goodbodys[7]. A poll from Irish business and credit risk analyst Vision-net.ie found that 24% of Irish shoppers planned to travel across the border to Northern Ireland to avail of the weaker sterling before Christmas. A survey by the AA of over 9,000 people found that of those travelling to across the border (35.81% of those surveyed were doing so to purchase alcohol.) Indeed, the latest exchequer returns published on 4 December confirm these findings and recorded a shortfall in excise duties of €33 million.

Irish alcohol is the most expensive alcohol in the EU. Sterling's devaluation means that it is now 20% more expensive for the 3.5 million British tourists who spent almost €2bn euros in the Irish economy in 2015. It is one of the most important product categories that influences the propensity of consumers to shop in Northern Ireland. When consumers shop across the border the economy loses not only the associated tax revenue but four times that in Irish economy spend.

3. Medium and long- term impacts of Brexit on the food and drinks sector

The UK Prime Minister Theresa May has committed to leaving the customs union, which will make the introduction of some form of control on the movement of goods across the Border look inevitable. It's likely that this will be done largely using technology, rather than a return to a queue of lorries. However, the negotiation of a new trading relationship with the UK presents serious challenges and risks for the drinks and food sectors.

The following issues must be considered and require to be acted upon by policymakers in the Brexit negotiation process;

- Support for all island geographical indications (GIs) and how these will be managed in the future- Irish GI products will continue to be produced on an all island basis however some of this product will be a product of the UK while others will be a product of the EU. Verification and how the GIs continue to be protected in trade agreements needs to be considered.
- Market access issues for Irish and UK producers. It is difficult to forecast how access to markets for Irish and UK producers will be impacted by Brexit until negotiations are complete.
- The free movement of goods across the border is a key component of the drinks industry business model in Ireland. Free movement of people and goods across an open Irish border is of fundamental importance for export-focussed business and bring enormous economic benefits to the economies and societies of both Northern Ireland and the Republic. The reintroduction of a hard border between North and South would be hugely challenging for the sector.
- Long-term currency issues. There is huge uncertainty regarding the level at which the sterling will stabilise?

The Government must ensure the following;

- Ireland as a continuing EU member is not worse off due to the UK's decision to exit the EU.
- Rural and regional Ireland which is most impacted by cross border shopping and job losses in the agri -food and drink and tourism sectors are not severely disadvantaged by a hard UK Brexit.

[7] http://www.irishtimes.com/business/economy/weakened-sterling-tempts-shoppers-across-the-border-1.2853566

Recommendations

There are a number of policy measures that the Government must introduce in the short and medium term to mitigate against the risks that Brexit poses for the drinks and food industries;

1. Prioritise support for the sector
2. Do not impose increased costs on business
    a. Ensure a hard border is not reintroduced
    b. Limit the costs associated with the implementation of the PHAB
3. Challenge EU State Aid Rules
4. Ensure the geographic impact for Irish Whiskey and Irish Cream Liqueur are protected
5. Assist the food and drinks sector in gaining access to new markets

1. The Government must prioritise support for the sector

Given the competitive crisis now faced across the trading and tourism sectors the Government must look at the comparative taxes and costs applying that apply to them. It is important for the Government to take the common-sense approach regarding taxation and excise as outlined by former Minister for Health Leo Varadkar in December 2015 when the draft Public Health (Alcohol) Bill (PHAB) was published. Speaking about the proposed introduction of Minimum Unit Pricing Minister Varadkar said that it was the Government's intention to*".... go ahead with minimum pricing at the same time as Northern Ireland,"* noting that *"it would be totally counterproductive if people just went North of the Border" December 2015)*

Government policy regarding excise needs to be adapted considering the devaluation of Sterling. Ireland has the highest priced alcohol in the EU largely because of our very high excise levels- highest excise in the EU on wine and third highest for Beer and Spirits. Our high prices combined with sterling's devaluation means consumers will be incentivised to shop north of the border with a resulting loss in revenue, taxation, and impact on jobs.

Alcohol excise is a key driver in the price differential and decreasing the rates vis a vis excise on alcohol in other EU countries must be prioritised

The proposed introduction of minimum unit pricing would exacerbate the price differential. With the introduction of minimum unit pricing, basic prices for beer wine and spirits would all increase substantially:

	Price today (€)	Price (€) with MUP
Beer	1.40	2.20
Wine	4.87	8.40
Spirits	16.40	22.00

Putting up prices on the highest priced alcohol in the EU by introducing MUP when Northern Ireland has effectively seen its already lower prices fall by an additional 20% will only further incentivise consumers to buy alcohol and other grocery goods outside the jurisdiction resulting in job losses and lower tax and tourism revenue. The drinks industry has proposed to Government in the past that they would reintroduce the ban on below cost selling that existed until to 2006.

Government should introduce a ban on below cost selling rather than minimum unit pricing as proposed in the PHAB.

Government must also look at tax and regulatory measures to incentivise large companies in the food and drink sector who have huge Irish economy supply chains to stay and do business in the Republic of Ireland.

Introduction of tax and regulatory measures to incentivise the sector

2. Do not impose increased costs on business

Two significant areas have the potential to impose additional costs on drinks businesses

A. The reintroduction of a hard border
B. The costs associated with the implementation of the PHAB

Ensure a hard border is not reintroduced between north and south

It is welcome to see the Irish Government, the UK Prime Minister, the Northern Ireland administration, and the NI Sec James Brokenshire all agree on the importance of ensuring free movement of goods and people on the island. This is a key element of the Irish business model and is of crucial importance to drinks companies operating on the island. As the only EU member state with a land border with the UK, the Government needs to ensure there is a border regime fit for business at the end of Brexit negotiations.

Limit the costs associated with the implementation of the PHAB

As highlighted by both multinationals, craft producers and retailers measures in the PHAB such as structural separation, advertising restrictions and health labels will increase the cost of doing business in Ireland and effectively act as major barriers to start ups and innovation in the drinks sector.

Labelling: New proposals will impose an Ireland specific label on any company looking to trade in the Republic of Ireland. For large companies this will be problematic due to the number of different stock keeping units (SKUs) they have on sale with each requiring a new label for the Irish market alone with associated costs per label. For craft brewers and distillers. the imposition of these additional costs could add significantly to their unit costs. The European Commission is already examining the issue of alcohol labelling and is expected to make recommendations for a standard EU label soon.

The Government should adopt the standard EU label when this is agreed rather than imposing a costly "Ireland only" label.

Advertising and marketing: Proposals restricting the volume of advertising and the content of alcohol advertising are not evidence based. In fact, there are plenty of examples which demonstrate

that advertising restrictions have no impact on alcohol consumption[8]. The net impact of the restrictions on business will be to stymie new suppliers and existing supplier with new products from competing in the market with no impact on alcohol consumption. For mature consumer products, such as alcohol, market share is the focus of advertising. The long-term decline in alcohol consumption in Ireland, despite continued exposure to advertising, confirms this (alcohol consumption has declined by 25% over the past 15 years)[9]. Advertising is key for the successful introduction of new brands and this will be detrimental for companies looking to build brands both in Ireland and for export.

The proposed watershed for advertising on TV and radio will only apply to domestic broadcasters – RTE, TV3 and TG4. It will not apply to broadcasters operating outside the jurisdiction. Approximately 50% of live TV content viewed by under 18s originates outside the island. For those aged 15-18 this figure rises to 60%. A watershed will not apply to programming that is viewed on demand or online-increasingly popular as a means of viewing content by teenagers. The net result of a watershed will be a decrease in advertising revenues for Irish broadcasters (making it more difficult for them to produce or procure content) and no impact on the exposure of minors to advertising.

Watershed restrictions on advertising will not work and will simply decrease revenues for Irish broadcasters

Retailing and Structural Separation: Proposals in the PHAB to restrict the availability and visibility of alcohol on retail premises are not evidence based. The net impact will be to impose costs on both small and large retailers. The convenience Stores & Newsagents Association has estimated the cost for retrofitting a small store could range from €5,000-€60,000.

The Responsible Retailing of Alcohol (RRAII) in Ireland code of practice operates successfully with high compliance rates- 83% overall and 95% at multiple level in the latest annual report published[10]; it is an example of an industry code that works. The RRAI code also applies to shops regardless of size. The Government should put this code on a statutory footing.

The Government should put existing codes of practice around retailers, volume and placement and content of alcohol on a statutory footing

3. Challenge the constraints of EU state aid rules

Many support measures Irish industry would like to see introduced to offset the impact of Brexit are prohibited by EU State Aid rules. These controls, which restrict Government support are in place to prevent state subsidies from undermining the normal functioning of the EU internal market. UK exit is a fracture of the single market and our future trade with the UK will be trade outside the single market. Therefore, it is imperative that Irish business and the Irish Government continue to make the case that such constraints are not relevant and should not apply to those trading predominantly with the UK. However, such efforts would be undermined if the Government moves to push up prices regardless of the threat it poses to jobs and the economy.

State Aid rules should no longer apply to those predominantly trading with the UK

[8] [illegible] s
of [illegible]
A [illegible]

[9] Revenue/CSO statistics

[10] RRAI 5th annual compliance report 2013

4. Ensure the geographic indicators for Irish Whiskey, Irish Cream, and Irish Poitín/Irish Poteen are protected and supported

The protection of our three geographic indicators is vitally important, particularly now that Theresa May has confirmed the UK is to exit the single market. It is an unusual situation in that these are all island Geographic Indicators but governed by two different states namely ROI and NI. It is imperative that consistency is maintained in the application of verification of each of the technical files for each category by the respective competent authorities in ROI and NI. Co-ordination and agreement on all matters is imperative for the integrity, protection, and future success of the categories.

All island geographic indicators for Irish Whiskey, Irish Cream and Irish Poitin must be protected

5. Assist the food and drinks sectors in gaining market access to new markets

Market access to new markets will be crucial in replacing any lost sales that may arise if access to the UK market becomes difficult. Irish whiskey is sold in over 100 markets however our competitors in Scotland have access to over 170 markets. Government needs to assist exporting companies by assisting them to gain access to new markets to diversify their businesses

The Government must support the sector to gain access to new markets

Conclusions

The drinks sector is the power engine of the Irish Food and Drinks market and is a major contributor to the economy in Ireland in terms of economic contribution. The UK is one of the most important trading partner for the Irish food, drinks and tourism sectors and the triggering of a hard Brexit will have profound impacts on the agri-food sector. This combined with measures proposed in the Public Health (Alcohol) Bill have the potential to create a perfect storm for the sector.

Devaluation of sterling has in the short-term led to an Increase in cross border shopping, made Irish products are more expensive in the UK and increased the cost of Ireland as a tourism destination.

To mitigate sterling devaluations in the short and medium term the Government should

- Decrease excise rates on alcohol
- Reintroduce the ban on below cost selling
- Impose no further costs on business:
  - Ensure a hard border is not reintroduced
  - Adopt the standard EU label for alcohol rather than imposing a costly "Ireland only" label
  - Put the existing codes of practice on volume and placement on a statutory basis
  - Put the code of practice re alcohol advertising on a statutory footing
  - Challenge the EU regarding state aids to business

The long-term implications of Brexit are still unclear. Whatever the outcome, its vital that the Government supports the food and drinks sector to gain access to new markets and to that geographic indications for Irish Whiskey, Irish Cream, and Irish Poitín are protected and supported.

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Summary Document: "The Impact of Brexit on the Economy"

an economic study by agri-economist, Ciarán Fitzgerald

published in January 2017

The Impact of Brexit on the Economy is a new economic study by agri-economist, Ciarán Fitzgerald, which was published in January 2017. The report has found that the combination of a hard Brexit and the Public Health Alcohol Bill (PHAB) will result in serious difficulties for the drinks sector, which is the powerhouse of the Irish agri-food and drinks industry. The report recommends a series of policy measures to mitigate against the risks of Brexit and reduce the unintended consequences of some of the policy measures contained in the PHAB.

The UK is Ireland's biggest export market for food and drink with exports of €4.5bn in 2015. The result of the UK Brexit vote and subsequent sterling devaluation has led to a surge in cross border shopping, increased prices of Irish products and has increased the cost of Ireland as a tourist destination.
Mr. Fitzgerald's report calls on the Government to introduce a range of policy measures in the medium term to enable the sector to offset the risks posed by Brexit and the PHAB. The Government should;

- Cut excise duty. Ireland has the most expensive alcohol in the EU which penalises consumers, impacts tourism and negatively impacts the sector's economic contribution.
- Reintroduce the ban on below-cost selling to disincentives cross-border shopping and tackle alcohol misuse.
- Introduce tax and regulatory measures to incentivise companies in the food and drink sector that have huge Irish economy supply chains grow their businesses in the Republic of Ireland.
- Not impose any additional costs on business, such as structural separation, additional advertising restrictions and health labels which will increase the cost of doing business in Ireland and effectively act as major barriers to nascent craft brewers and distillers.
- Challenge EU State Aid rules to promote future trade with the UK.
- Ensure all island geographic indicators are protected and supported for Irish Whiskey, Irish Cream, and Irish Poitín/Irish Poteen.
- Assist the food and drinks sectors to diversify and gain market access to new markets.

According to the report, in the context of the impending PHAB and uncertainty around Brexit, it is vital that the Government puts in place these measures. They will support the sector, ensure it gains access to new markets, support new entrants and protect the unique geographic indicators for Irish Whiskey, Irish Poitín and Irish cream that we share with the North.

The economic impact study was commissioned by the Alcohol Beverage Federation of Ireland (ABFI), the trade association representing brewers, distillers, brand owners and distributors in Ireland. The sector is an economic success story; the Bord Bia Exports Performance and Prospects Report 2016—2017 published recently (January 2017) valued growth in beverage exports at €1.4 billion, an increase of 4% since last year. Furthermore, the sector exports drinks to 139 markets worldwide and supports over 200,000 jobs in the drinks and related hospitality sectors with an annual wage bill of €4 billion and purchases over 300m litres of milk and over 200,000 tonnes of Irish grains every year.