Working Paper:

British Exit from the European Union

Case Studies

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Acknowledgments

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Foreword

The case studies presented in this Working Paper supplement the information gathered from our All- Island Business Monitor, research programme and from our series of Brexit Ready events. The case studies cover businesses from a variety of sectors that currently trade across the border. They are the first in a series of case studies and will inform the development of our our Brexit Advisory Service that helps businesses navigate the new cross-border trading relationship as it emerges from the negotiations around the United Kingdom's decision to leave the European Union.

Please note that this collection of case studies provides a snapshot of how some businesses are currently responding to the Brexit process as of the date of publication.

"We'll go where our business is, where our customers are"

There is an arc of engineering and metal fabrication which curves from south Cavan through north Monaghan to end in a tight cluster around Dungannon. They are all but invisible to the casual traveller, down lanes or in small industrial estates with no shop front and barely a sign on the gate, but once inside you find they are busy places and significant employers of highly skilled staff. The main McAree plant in Ballinode is close to the mid-point of the arc, but it also has metal fabrication at Carrickroe, almost within sight of the Tyrone border. They have a workforce of just over 100 but would employ more skilled people if they could find them.

"Our sales break down at 60% in the Republic, 35% to Northern Ireland and 5% to Britain," says sales and marketing manager Peter Richardson. "But since we are mainly second-tier manufacturers, a lot of what we sell in the home market actually ends up being exported, so altogether about 86% of our output goes to export directly or indirectly."

The company has not suffered unduly from the decline in the value of sterling because it has an exceptionally good natural hedge. "We buy more than 100 tonnes of steel a week – maybe 6000 tonnes a year – and almost all of it comes from England or Wales priced in sterling. Steel is about £700 a tonne so that's £4.2million we paid out in the last year."

In the great production sheds it is hard to miss the massive shiny grain silos, great galvanised tubes lying on their sides. Near them lie a row of very odd-looking steel cages. "Those are cabs for forklift trucks," says Peter. "About 25% of all our production goes to Combi-Lift, just down the road."

McAree are not unduly concerned about tariffs which are generally low in the field. "We are more concerned about the border itself. Some of our biggest customers are in and aroundDungannon, particularly suppliers of machinery to the quarrying trade. Our products are high-volume,heavy and low-margin. It takes 40 minutes for us to get a truck up to Dungannon now and we send at leasttwo a day. If there were constant delays or problems with customs clearance that could damage ourcompetitive position. We are competing with companies sitting just on the other side of the border, someas close to us as Ballygawley."

Despite its natural hedge, the company is sharply aware of the way that currency movements play directly into its competitive position.

"We're really selling on quality and customer service. We manufacture to the relevant EU standards including EN1090, Class 2. We are providing products of a high standard to world-class end-users and we would not be concerned about competitors with lower standards. When sterling was at 80p to the Euro we were doing pretty OK. At 85p or a bit above, where we are now, we can absorb it. At 90p our Northern Ireland counterparts have a very definite competitive edge over us. If we started moving towards 95p we could definitely not absorb it."

If some combination of currency movement, tariffs and non-tariff barriers such as border delays make it necessary, the company is quite prepared to make the necessary business decision.

"We'll go where our business is, where our customers are," says Peter Richardson. "We're not making any concrete plans, but if necessary we will set up production north of the border, no question about it. We wouldn't even have to go too far – just about anywhere between Enniskillen and Dungannon. Incidentally, it's said that 85% of the world's quarrying and screening equipment is made within about a 15-mile radius of Dungannon, where global brands like Terex, Sandvik, McCloskey International and a myriad of others have manufacturing bases."

Such a business decision would be reinforced by broad overall competitive differences between north and south. "On average our operating costs are about 15% higher on this side of the border, reflecting higher business costs and higher wages on this side of the border. We aim to be competitive through our efficiencies in our production methods."

McAree has long-term plans for expansion in Britain. "None of our investment plans has been put on hold due to Brexit. In fact, we are expanding the Ballinode site, moving silo production onto adjacent land to free up room in the production sheds. Demand in the UK died of after the referendum vote but it has picked up again and now manufacturing is flat out there, so there will be demand for our products. We set up a sales office in Bristol towards the end of last year."

Most of the McAree workforce lives within a 10-minute radius of the plant and only a handful commute across the border. 60% of the staff originally came from Eastern Europe. "The labour market is actually very tight: I could start ten welders in the morning if you could find them for me. We spent a lot of money on newspaper ads without result, and now we are trying to find skilled labour in Lithuania."

Richardson reckons we are paying the price now for letting the apprenticeship system crumble during the recession. "I think this is going to be a big impediment to growth at national level. Judging by the responses to recruitment drives we must be close to some natural level of what is really full employment. We have got our own apprenticeship programme but obviously you need the skilled operatives to absorb the apprenticeships within the plant."

McAree went on a three-day week during the recession and Richardson reckons that having survived that, nothing Brexit can throw at them will stop them now. "We've been here 70 years from very small beginnings. There are things we can do that others can't, not things the public can see but important things. We have our own design capacity – manufacturers come in here with an idea and leave with new elements for their production system. That sort of demand is not going to go away."

"I believe we will be able to pass the cost of tariffs along to the end-users"

Univet employs 64 people at its single manufacturing plant in Co Cavan, making veterinary pharmaceuticals for cattle, sheep and pigs.

"Products aimed at the dairy industry are of increasing importance for us, accounting for up 40% of sales," says managing director George Crowe. "We are pushing this area because we have a good set of products and good production facilities for expansion."

Geographically, sales break down at roughly 25% in the home market, 6% in Northern Ireland and 12% in Britain. In the rest of the EU Germany dominates, but the Middle East and Far East are also important markets.

"Naturally we are concerned about Brexit and its broader impact, but we have no major concerns of our own. This is a niche market and although we overlap in terms of products with other producers in Ireland and across Europe, there is no overall matching competitor across the whole product range. When sterling fell sharply against the euro following the Brexit referendum, we were able to adjust our prices in sterling without meeting major resistance.

"Actually, the place where we got the currency squeeze was on the purchasing side, when the weakening of sterling led the dollar to rally against the euro. We buy in a great deal of raw materials priced in dollars from China and India, probably up to $4 million worth a year. Last year, for example, we forward-bought $3.5 million dollars to cover this trade. We expect to feel some pain in this area."

George Crowe has no reason to believe there will be any significant tariff impact on Univet's operations.

"First of all, if we do get into a situation of trading with the UK on the basis of tariffs, I don't expect the levels to be applied to pharmaceuticals will be prohibitively high. Even if we do, because our niche in the market is sufficiently unique, I believe we will be able to pass the cost of tariffs along to the end-users in the agricultural industry. The value is there in our products to be able to do that."

Nor does the prospect of a physical border across the island pose any major problems for Univet's high-value but low-volume output, he believes. "We are talking about a few vans or other vehicles passing through and it is usually a case of deliveries by people other than ourselves. Besides, we lived with this before 1993, it's a nuisance but no more than that."

On the issue of regulatory regimes, George Crowe makes a careful distinction between standards and the way they are implemented and enforced.

"The big issue in our business is the length of time it takes to get a product to market up to ten years in some cases. Even if you were to come in here to me today with a product that already had all the necessary approvals, it could take two years before we could get it into production.

"As far as the standards themselves are concerned, I don't expect any changes. The British authorities will write all the EU standards across into their own legislation and keep it in line with the EU into the future. We were in London a couple of weeks ago talking to the regulators on unrelated business and we discussed this issue in general terms. We heard nothing that would indicate any moving away from the EU standards, in fact quite the opposite. So we believe reciprocal arrangements will be put in place as they generally are between advanced economies for our sector.

"On the other hand, the British are very pragmatic in the way they do business. We would hope that they would make it easier and quicker to register new products within the existing standards regime."

Presuming Brexit does not throw up any insurmountable products, Crowe expects some expansion in the British market. "There is competition within the UK from other European producers, but curiously we haven't been able to track anyone manufacturing competing products within Britain."

The company does not enjoy any patent protection in the UK and it has no concerns about trademark protection potentially falling away, again because of the length of time it takes to get a product to market. Univet has not engaged any professional advisors or consultants in relation to Brexit and while the company is aware of meetings organised by Enterprise Ireland, it has not had any form of one-on-one support from relevant state agencies on the issue.

"We are confident, we will cope," concludes George Crowe.

"How do you quantify what you might be missing out on?"

One look at the front page of the website of Intelesens underscores the collaborative nature of this pioneering health manufacturer. Badged with the EU Regional Development Fund, it also proudly boasts links to local Trusts, hospitals in England, Ireland and America, big names like Intel Health and the Wellcome Trust as well as other high profile international organisations.

Spun out of the University of Ulster, the company describes itself as an established medical technology company that has developed a portfolio of intelligent, wearable, non-invasive, wireless vital-signs monitoring devices for the hospital and home patient monitoring markets. Basically, it is about being able to monitor people easily and wirelessly, freeing up vital hospital beds particularly intensive care and also allowing people to be monitored at home. The system saves money but also can be a component in a wider emerging connected health strategy.

Chief Finance Officer Deirdre Francis confirms the collaborative global nature of Intelesens work. It's a small company employing 33 full-time-equivalent staff with only a small number of European employees and turns over about a million annually. But its work is ground-breaking in establishing new, innovative pathways.

In the broad sweep of Brexit implications it is - in order - less affected by staffing, financial and tariff implications, potentially more by regulatory and standards, and in a major way by the threat to European Research and Development funds.

The company has established that, as a medical device, its product is tariff-free to the US, but that isn't the case with all of its components: some elements are tariff-free but others are not. The greatest impact so far on its business has been in currency markets with a thirty percent increase in prices for some of its raw materials.

The company trades in the US which applies very strict monitoring on imported medical devices, even down to small numbers, with the Food and Drug Administration (FDA) carrying out often lengthy monitoring. That experience raises a major concern about what happens if such a scenario is replicated in a European context post-Brexit.

Intelesens has to go through strict regulatory approval processes culminating in its devices being CE marked. The letters "CE" are an abbreviation of the French phrase "Conformité Européene (European Conformity). By its nature the product is also patentable and Intelesens has filed in a number of EU states. Before Brexit there were plans for an overarching patent structure for Europe; For Deirdre there are implications with Britain being clearly outside of that structure and also of the debate about its formulation, yet forced to conform to the outcome.

"The problem for us is the complete unknown. Not even the powers-that-be seem to know what to do to get us out of it. We are left with the mess and exposure to issues which affect currency, price and regulation but with no way to mitigate them," says Deirdre. "We don't have control."

Perhaps the biggest issue for the company is research and development. Back to the website again and it is clear that those behind the company have been particularly successful in attracting European monies across a wide range of projects. That is in some cases based on collaboration across countries and disciplines - a requirement of the EU R and D funding system.

The UK Chancellor of the Exchequer has pledged that this funding will be maintained until 2020 but Deirdre feels that assurance does not go far enough. The nature of these collaborations is the significant time frame for development and application and it is her real fear that potential partners will not engage in the wake of Brexit, but seek more secure partners within a European umbrella in the future.

Her worry is that the phone won't ring or be answered and she asks: "How do you quantify what you might be missing out on?"

Against this backdrop the company has not got direct access to vital information or support as it relates to Brexit and relies heavily on the media for such information as it can find.

“It annoyed us tremendously at the start, but we’ve attempted to inform ourselves and we’ve developed a plan”

Perhaps the first thing that strikes you entering the ReGen Recycling complex at Newry’s Carnbane Industrial estate, where they recycle thousands of tonnes of household rubbish from across these islands, is the limited smell.

That’s not by accident: the business has grown out of the implications of the European Waste Framework Directive (2008/98/EC) married to subsequent UK legislation, local orders and directives, waste management strategy, environmental standards, and a Programme for Government commitment to household recycling and landfill diversion targets. The business has invested heavily in ensuring high standards in its processing and has developed one of the most advanced materials recovery facilities in Europe.

It now employs approximately 170 staff of whom around 120 are non-UK nationals. Access to a suitable workforce, which cannot be recruited locally, is key to the company’s business model.

The business has gone from nothing in 2004 to a turnover in excess of £22 million in 2016. Its recycling inputs are derived from recycling contracts: Scotland (40%), Ireland (30%), England (15%) and Northern Ireland (15%). Its outputs are to Waste-to-Energy schemes in Europe and commodity export: e.g., plastic, metal and paper to a range of countries including some outside the EU such as Turkey, Indonesia and China.

When Brexit first emerged as an issue it presented an existential shock for the company which experienced initial issues around currency, emerging threats in relation to staff and tariffs and bigger threats around the implications of the UK being set apart from Europe’s overarching environmental standards which have driven the recycling industry overall.

Joseph Doherty is Managing Director of the company: “It annoyed us tremendously at the start, but we’ve attempted to inform ourselves and we’ve developed a plan. But it does panic us every time there is another headline.”

The nature of informing themselves has not just been about information but about action.

Regen is highly reliant on non-UK nationals – there is just not an appetite from local people for this type of work. So recently the company employed the services of an immigration expert to come to the plant, talk to their staff and start the process, for those interested, of applying for UK citizenship. There has been significant uptake, particularly among those who have settled more permanently in and around the Newry area. ReGen has undertaken to pay part of the application.

Perhaps the biggest worry initially, according to Joseph, was that of tariff and border implications.

“What we did first was talk to older generations about their memory of how the border affected life and there were stories of vehicles being there for hours and the ridiculous time wasted on checkpoints.

“We decided we needed to put figures on our exposure, aware of the worst-case World Trade Organisation scenario.” Having further guessed on tariffs the company used their own accountant to map out a tariff rate based on 3% in and 6% out. As it turns out, subsequent information sets the figures at 6% each way and those figures, he says, were helpfully obtained when Intertrade Ireland stepped in.

The figures have further allowed them to do a calculation on impact on revenue based on two scenarios - remaining in the UK or moving to the Republic of Ireland. “We actually got the accountant to do an exercise where we calculated all our revenues as if we were in Ireland,” says Joseph, with he figures revealing a greater cost for that scenario.

The company is still considering whether or not it is advantageous to re-site partially in England to deal with its contracts there.

Until now some of the currency implications have worked in the company’s favour, but it is aware of the potential for capital spend on machinery and there will be greater costs involved in sourcing such machinery, including parts and of course fuel.

“We’ve got to the point where we’ve assessed everything and worked out our position, and put a circle round, for example tariffs. This allows us to know our position in the market place and the position of our competitors. We went from unknowns to knowns with parameters and we have to further define those.”

The company employs a significant fleet and there are implications for movement to and fro across the border but he reflects that from a waste perspective there already is a border.

“We are charged about £200,000 a year by authorities in Northern Ireland and the Republic to monitor the waste we move to and fro and there is a concern that we could get an additional charge particularly between Northern Ireland and the rest of the UK” and this may further inform decisions on relocation.

“We cross the border all the time, and we already deal with some of these issues, telling the authorities three days in advance of our movement. Our regulator no longer stands on the border. He or she is in an office and checking is done by audit or digitally. But now overall we do not know what the shape of any new border will be and what it will look like.”

But perhaps the biggest worry for ReGen is the nature of regulation in the future. He believes councils he’s contracted to are married to high standards and that the public likes the recycling concept and values it. He’s also conscious that the Exchequer will be keen to hold on to the many millions it picks up in landfill revenues and that there has been a thriving industry associated with recycling.

“But what if the European ‘big stick’ is removed? What will happen then?”

“Any law is only as good as any government is going to invest in it, regulate it and monitor it. So what if investment in recycling targets and a reduction in landfill tax are removed in a post-Brexit UK?”

This is a big issue for a company that has relied heavily on the impact of European standards on its business and seen it grow, thrive and employ significantly in a border area.

HAND ENGINEERING LTD

"I can't see how we are going to come through this without the whole business of customs checks and tariffs"

Hand Engineering, based outside the village of Dromone in Co. Meath, has classic origins in the repair and maintenance of agricultural equipment. Steady expansion has taken it into manufacture of vehicles and machinery spanning from dairy farming to horticultural peat harvesting, forestry, construction and quarrying equipment. The workforce is 18 including some from Eastern Europe: like the rest of the sector, the company can find it difficult to recruit skilled staff.

"In value terms our output is 25% to the home market, 50-60% to the north and Britain, and most the rest within Europe with a few items going to America," says owner-manager Darragh Hand. "Northern Ireland is pretty important to us and we have competitors there so the fall in the value of sterling has been an issue, but we have been living with that problem most of my lifetime, it's swings and roundabouts."

The company buys in about 1500 tonnes of steel a year, but because it is mainly highly specialised and high-quality it comes from Sweden and other parts of the EU. "A lot of it comes via the UK but in fact about 75% of it is priced in Euros, but we have a small natural hedge on the rest which is priced in sterling."

The pride and joy in the big production sheds is the Zerograzer, a mighty machine which cuts grass and rams it into a great trailer for delivery straight into the milking sheds. This is a state-of-the-art with LED lights and strobes and wireless rear camera, so advanced that it doesn't actually have a direct competitor in Britain or the north. Demand is good in England, France and the Netherlands and there are exploratory deals in Norway and elsewhere in Scandinavia. It is already accounting for significant turnover.

"It's our impression that the dairy market in England has actually taken off a little since the Brexit vote, after a year or two of holding back. There may be a sense in the market that people will be more inclined to buy home-produced food now. The north is a different matter. There are major worries about the lack of processing capacity there and the danger of tariffs blocking the cross-border milk trade."

Hand Engineering has not delayed or put off any investment plans as a result of Brexit. "Obviously we are cautious and we are waiting to see how the whole thing turns out. But you could hardly sit down and write a five-year business plan right now and that is something we want to do. I can't see how we are going to come through this without the whole business of customs checks and tariffs, and we have no way of knowing just how that might impact on the business."

He is also concerned about the potential impact of both tariffs and customs delays on the supply chain: Hand Engineering buys in components from Northern Ireland, for example.

Everything the company sells goes out on low-loaders or curtain-sided trucks. If the UK leaves the EU with only a WTO (World Trade Organisation) relationship to fall back on, it is expected that sealed containers will be able to transit from Holyhead to the continental ferries, but things may be more complicated for open vehicles. The bulk of exports go out of Dublin Port and there are fears of congestion there.

The company's concerns about tariffs are general: no calculations have been made on specific rates which might apply to their products. "To be honest, I don't even know who to ask. We don't have access to the sort of consultants who might be able to find out and right now we have no way of finding out ourselves," says Darragh. He has also more general concerns about non-tariff barriers; whether Britain might, for example, decide to move away from the EU manufacturing standards. And then there are more general concerns about the sheer nuisance of borders and the delays they can involve.

"We make very large, complicated machines and every time we sell one, we have to send a team with the delivery to set the equipment up and provide some training for the operators – there are three in the north right now. We haven't a clue how all that might work if there are customs checks. Will we have to send the truck a day or two ahead to allow for clearance paperwork? Will it take an extra day or more for the set-up team?"

Darragh built the business up gradually as imports slowed through the recession by competing with imported equipment from the UK. He has great hopes for the UK market and will fight hard to keep his foothold, but he is already looking further afield. "We're not attending the big dairy events in Britain this year. We have decided to go to Europe and to major events there. We have to look at Brexit as a new incentive to diversify."