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The Economic Impact of Brexit on the Drinks and Hospitality Sector

COMMISSIONED BY THE DRINKS INDUSTRY GROUP OF IRELAND

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EXECUTIVE SUMMARY

A hard Brexit will have negative economic effects, to varying degrees, on all activities of the drinks and hospitality sectors including hotels and other accommodation, restaurants and public houses, drinks off-licence retailers and wholesalers/distributors, and brewers and distillers.

The new rules which will govern trade and other economic flows are the "direct" effects of Brexit. It will be some time before we know these. There are other more immediate "indirect" effects arising from Brexit including the decline in the value of sterling, the short-term lower level of economic activity, business and consumer uncertainty, decisions in anticipation of Brexit and deferred investment.

UK exports to the EU (including Ireland) would be subject to the current external EU trade regime with a range of service restrictions and tariffs on goods. The EU tariff structure is known. However, the UK would have to decide on its own tariff rates and structure and other rules of trade and trans-frontier business. Analysis of the impact on Ireland of a hard Brexit has generally assumed, as a research methodology input, that the UK would apply the same set of tariffs as currently it has against non-EU members by virtue of its EU membership. That may not be the case.

At time of writing, the latest monthly average exchange rate was May 2017. Between May 2015 and May 2017, the euro has increased in value by 18.6% compared to Sterling. Between May 2017 and September (currently), the euro appreciated further. The September 15th exchange rate was 0.88043. On August 30 Sterling declined to 0.92246. Between May 2015 and September 15th 2017, the euro has appreciated by 22.0%. This results in the Sterling cost of a €1,000 holiday in Ireland increasing between May 2015 and May 2017 by approximately £135 (from £721.43 to £855.54); the September 2017 cost is £880.43.

The headline figure which is used to illustrate the British role in Irish inward tourism is that of 9.584 million visitors in 2016, 3.924 million or 40.9% were from Britain. This is by far the largest single national market and is larger than the total of 3.301 million from the rest of Europe combined and the 1.808 billion from the USA and Canada. The 2016 British share of inward tourism expenditure was 23.2% compared to the USA/Canada share of 29.2%. The rest of Europe share was 36.2%.

In the period Jan-July 2017, compared with 2016, there was a decline of 6.2% in British visitors, an increase of 9.6% in non-British visitors and an increase of 3.1% in total visitors.

The Brexit effect is already happening.

A 6.2% annual decline in British tourism expenditure would equate to losses of almost €70 million in 2017. Adding Northern Ireland visitors and increased Irish trips to the UK plus carrier receipts would increase the loss to around €100 million.

The Irish drinks industry generated exports of €1.29 billion in 2016, of which €301.6 million or 23.4% went to the United Kingdom. This compares with 14.1% of total goods exports going to the UK. €216.1 million was sold to Britain and €85.5 million was sold to Northern Ireland. The largest national market for Irish drinks exports is the United States with €512.0 million or 39.7%. Britain is our second largest national market for drinks exports and Northern Ireland is our third largest.

In another scenario (tariffs, non-tariff barriers and a 10% Sterling decline (since the Brexit vote)) exports to Britain will fall by 14% or €30.3 million and exports to Northern Ireland will fall by 11% or €9.4 million. The overall decrease in Irish beverages exports to the UK arising from Brexit is €39.7 million or 13.2% of the total.

Excluding the exchange rate change the decline in beverages exports to Britain is 8% or €17.3 million and to Northern Ireland, 5% or €4.3 million. The combined UK decline is €21.6 million or 7.2%.

A hard Brexit will also affect exports to non-UK markets through the use of the British international transport and distribution system.

While 23.1% of beverages exports are sold to the UK market, the bulk of the remaining 76.9% use the British transport system for both EU and rest of world markets. In the case of a hard Brexit, and depending on transit rules, these exports would also be affected by cost-increasing customs and documentation barriers or by having to use less efficient transport routes.

The same issue arises with imports.

On the assumption of a resumption of 2009 levels of cross-border shopping and a pro rata increase relative to national consumption growth since 2009, the current level of cross-border purchasing would be €503 million per year. This would suggest an annual alcohol cross-border expenditure of €60 million.

RECOMMENDATIONS

The report agrees with the Government's Brexit priorities and recommends:

- Efficient and effective management of the economy and its constituents, especially the public finances;
- Rethink short- and medium-term public financial allocations to reflect the national threat to cost and overall competitiveness posed by a hard Brexit and the increased importance of improving the tourism product, enhancing the attractiveness of Ireland and diversifying markets;
- Measures to strengthen enterprise, sectoral and national cost and overall competitiveness;
- Specific support for exposed sectors and enterprises (these would have to be acceptable to the EU in terms of state aid rules or acceptable in the context of the Brexit problems and to the UK in terms of "unfair trading practices"). This is of particular importance to the emerging small brewing and distilling enterprises and tourism enterprises;
- Seek EU agreement for and financial support for specific Brexit response measures given the relatively large negative Brexit impact on Ireland;
- The role of the UK in the Irish international trade transport and distribution system for both imports and exports merits a higher level of attention than it has hitherto received in the context of Brexit-related policy consideration, analysis, assessment of options and research;

- It is necessary to deepen our knowledge and develop an understanding of the day-to-day implications at the microeconomic sectoral and enterprise level, such as customs documentation and management; export administration; and to design and provide training to develop necessary new skills;
- Mechanisms should be designed to include these enterprises who are not clients of Bord Bia and Enterprise Ireland in the individual enterprise “Brexit assessment exercise” and to provide them with access to supports such as the Enterprise Ireland “Be Prepared Grant” which currently applies to EI clients with significant UK exports. Brexit affects all sectors of the economy not just manufacturing/international services firms with significant UK exports;
- Beverages trade associations and hospitality trade associations are in a position to play a more active role in informing sectors and enterprises of the implications of Brexit and in their responses;
- Alcohol excise tax in Ireland is the second highest in the EU on an average basis and has a negative impact on the development and export potential of the industry and on tourism competitiveness. In light of the cost-increasing impact of Brexit, a reduction in alcohol excise is a measure which would ameliorate some of these cost increases and, unlike some other issues, is within domestic policy control;
- In light of the decline in the value of sterling caused by Brexit and the associated reduction in cost competitiveness, the 9% VAT rate should be retained to avoid additional competitiveness losses. Budget 2017 recognised the value of this measure in the context of Brexit;
- The ongoing detailed Brexit negotiations should ensure that the Irish all-island drinks geographic indicators or designations (Gis) are maintained and supported;
- The broad impact of Brexit is to increase the cost of international trade transactions and indirectly, through the exchange rate impact, to impose additional cost penalties. Government policy should avoid, where possible, increasing the cost of doing business, both directly through additional or larger financial charges and indirectly through regulation-induced or policy-induced cost increases. This should be a core element of policy for the next several years until the Brexit regime is identified and its effects known, and to help cope with the immediate and current effects of the sterling decline.

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INTRODUCTION AND SCOPE OF RESEARCH

This report's objectives are (a) to examine the possible impact of Brexit on the Irish drinks and hospitality sectors and (b) to make recommendations on how to deal with this impact. The drinks and wider hospitality sectors cover a wide range of economic activities and overlap significantly through the role of public houses, hotel bars and other bars, licensed restaurants and drinks-related visitor centres. In addition to the drinks activities included in the hospitality sector, the report examines the impact of Brexit on the other elements on the drinks industry such as manufacturing (brewing and distilling), wholesale distribution and off-licence retail distribution of alcoholic and non-alcoholic beverages and includes both the import and export activities of the sector. Therefore, the report covers brewers, distillers and other manufacturers, importers, wholesalers and other distributors, public houses, other bars such as hotels, restaurants and off-licences and other drinks-related tourism facilities. A hard Brexit will affect almost all aspects of Irish economic activity. It will have some positive effects, such as on flows of inward foreign direct investment, on Ireland's attractiveness to international students, and providing some element of tariff-related domestic protection to some beverage producers. However, most of the effects will be negative. Given the objectives of this report the focus is on tourism, exports and imports of beverages, cross-border shopping and supply chains for imports and exports.

Section 2 examines the mechanisms through which Brexit will affect the drinks industry and outlines the current WTO drinks tariff structure applied by the EU. Section 3 identifies the currently estimated economic impact of Brexit on the Irish economy. Sections 4 to 7 discuss the potential impact on different areas of the drinks and hospitality sector including, tourism, exports and imports of beverages, cross-border shopping, and supply chains and export pathways to market. Conclusions and recommendations are contained in section 8.

IMPACT MECHANISMS OF BREXIT

The details of the new economic relationship between the UK and the EU (including Ireland) which will govern the movement of goods, services, people and capital are currently unknown and await the results of the current Brexit talks. Even when these are known, it is likely there will be a relatively long transition arrangement and a gradual implementation of the new rules. However, there is always the possibility that the current Brexit negotiations will fail and end without any formal agreement. In such a case the UK will engage in economic relations with the EU (including Ireland) on the terms of any other country with which the EU does not have a customised trade and economic agreement, such as, for example, Russia or the USA.

While the details and rules of the new economic relationship are currently unknown, it is possible to identify the different options and to assess the implications of these. These options tend to be discussed in terms of "hard Brexit" and "soft Brexit". At present, there is free (almost) movement of goods, services, people and capital between the members of the EU. In addition, of course, there are other obligations and rewards associated with membership of the EU but the focus of this report is on the economic relationship. A soft Brexit would retain much or most of these freedoms of access between the UK and the EU. The UK might retain membership of, and access to, the single market or it might remain a member of the customs union, or a very liberal free trade agreement would be negotiated between the two parties. A soft Brexit would result in small changes to the 'four freedoms' or accesses. Consequently there would be limited changes to the current rules determining the flow of goods, services and people across the national borders of the EU members. The preferred UK option would be to have freedom of movement in goods, services and capital with controls on the movement of people. The EU considers the free movement of people to be an essential freedom alongside the other freedoms of movement.

A hard Brexit moves us to the other spectrum of the ease/difficulty of undertaking trans-frontier business. In this case, as already mentioned, there would be no special arrangements to facilitate the economic relations and flows between the UK and the EU. In such a case there would be a range of tariffs and duties applied to trade between the two areas. A range of non-tariff barriers and rules and regulations would also apply to trade and other economic flows. There would be restrictive rules on the flow of services between the two areas. New restrictive rules could apply to the provision of air services by one area to and within the other, and to transport/haulage services and transit arrangements. Cabotage, which refers to the national carriage of goods for hire or reward carried out by non-resident hauliers on a temporary basis in a host member state would, most likely, be changed in a hard Brexit situation.

A large portion of Irish goods exports to mainland EU economies is transported through the land bridge route (ferry/ship to Britain, road across Britain and ferry/ship from Britain to the European mainland). In addition, a large portion of Irish beverages exports to the non-EU global markets is shipped through British ports. There would be increased levels of, and different, export and import documentation required. In addition, there would be restrictions on the movement of labour if the new economic relationship falls short of the current single market mode. A significant proportion of imports from markets other than Britain are transported through Britain.

Without a replacement soft Brexit system or free trade agreement, UK exports to the EU (including Ireland) would be subject to the current external trade regime with a range of service restrictions, tariffs and quotas on goods. The EU tariff structure is known. However, the UK would have to decide on its own tariff rates and structure and other rules of trade and trans-frontier business. Analysis of the impact on Ireland of a hard Brexit (such as Lawless and Studnika (2017) and Lawless and Morgenroth (2016)) has generally assumed, as a research methodology input, that the UK would apply the same set of tariffs as currently it has against non-EU members by virtue of its EU membership. Of course, that may not be the case. The UK might adopt a cheap food policy and operate lower tariffs than the EU regime. Equally, it may wish to protect domestic manufacturers and impose higher tariffs than the current EU ones. For example, it might set a cider import duty, which is already relatively high for imports to the EU, at a higher level to support UK domestic producers. This latter regime is what is described in Brexit-related discussion as the World Trade Organisation (WTO) regime. A WTO regime does not suggest a closing of trade, but it would be trade with barriers, restrictions and tariffs; within the WTO system goods are more liberalised than services.

A WTO or near-WTO regime would also result in customs posts and additional procedures and documentation for export and import of goods between the EU and the UK. This would result in delays in the movement of goods and would increase the costs of exporting and importing.

The EU single market process is an attempt to ensure that, from a public policy perspective, economic flows between member states occur as easily as flows within member states. There will still be distance and customer taste impediments. A hard Brexit could reverse all or some of these public policy trade liberalisation measures.

There are many other trade barriers in addition to tariffs and quotas. These were highlighted in the EU single market process. In 1985, even though tariffs and quotas had been abolished between member states (the quotas were largely abolished but there were some agriculture policy-related quotas, and the implementation of textile commercial policy resulted in national textile import quotas), the EU (then the European Community) recognised that there were additional barriers to the free flow of goods and services. These provided a degree of protection for domestic producers and increased cost or restricted access for exporters to an economy despite a formal free trade regime being in place. These impediments to trade included:

- Differences in technical and health and safety regulations between members which imposed additional costs on exporters to ensure that their products complied with the rules of the target market;
- Delays at frontier posts for inspection by customs and documentation/administrative burdens on exporters increased the cost of exporting and gave an advantage to domestic producers despite the formal free trade situation;
- Preferential public procurement rules which, for example, could exclude foreign producers and keep the public procurement market for domestic suppliers;
- Subsidies and other supports for domestic enterprises which conferred an economic advantage over foreign producers;
- Tax rules could be used deliberately (or the situation could arise by chance) to favour domestic producers over foreign producers. For example, Ireland supplies most of the domestic beer market by domestic production but imports wine which is not produced domestically. A substantially higher rate of excise on wine compared to beer would support demand for beer and reduce demand for wine, which would be favourable to domestic producers of alcohol;

- Restrictions and rules on the supply of services by non-domestic enterprises, for example, that prevent trading across frontiers or deny the right of establishment or deny recognition of other country professional qualifications.

The EU single market process was designed to eliminate these additional barriers or protection devices (tariffs and quotas were mainly already gone) and generate a single market of all the individual EU members. These barriers can be reclassified into five groups, tariffs, quotas, cost-increasing barriers (exporters incur additional costs to sell products), market entry restrictions (public procurement or establishment rules) and subsidies and other supports which distort the market.

As noted, it will be some time before any new set of rules is in operation, unless there is a complete breakdown in the EU/UK negotiations and new rules are quickly introduced. In such a case new rules would operate much earlier than otherwise expected. A hard Brexit would result in the reintroduction of the barriers to cross-border economic flows which the single market process and programme abolished in the period leading up to the single market in 1992.

The range of post-Brexit trade and economic integration regimes are, in order of liberalisation of economic flows:

- Existing position of EU membership;
- UK retains membership of the Single Market;
- UK leaves Single Market but stays a member of the EU customs union;
- UK leaves both Single Market and customs union but has free trade agreement with the EU;
- UK leaves both Single market and customs union and does not have a preferential free trade agreement with EU. EU applies its current trade regime to UK and UK decides on its trade regime. This is what is described as the WTO regime;
- Even with or without membership of the Single Market, customs union or free trade area there may be specific agreements on individual areas such as education, research, security, technical and health standards and migration.

The new rules which will govern trade and other economic flows are what could be described as the “direct” effects of Brexit. As already noted it will be some time before we know these. There are other more immediate “indirect” effects arising from Brexit including the decline in the value of sterling, the short-term lower level of economic activity, business and consumer uncertainty, decisions in anticipation of Brexit and deferred investment. Of particular importance is the decline in sterling, which reduces the competitiveness of the Irish economy relative to the UK. This, in turn, negatively affects Irish exports to the UK, Irish enterprises competing with UK imports in the Irish market, and Irish enterprises competing with UK exporters in markets other than the UK and Ireland. It increases the attractiveness of retail cross-border shopping and causes a reduction in the competitiveness of Ireland as a tourist destination for UK tourists.

A lower rate of economic activity in the UK and lower real incomes reduce the market for Irish exports and reduces the outflow of UK tourists.

Sterling has declined significantly against the euro due to Brexit. This decline worsens the position of Irish producers relative to UK producers in all markets.

Paradoxically, the direct hard Brexit impacts of new restrictive trade rules will improve the position of Irish producers relative to UK producers in EU markets and the Irish market because the UK will face trade barriers into these markets. This will also apply to some of the rest of the world markets which have preferential trade agreements with the UK. For example, EU whiskey can be imported into Korea free of tariffs due to a trade agreement with the EU. The UK after Brexit would not be party to this agreement. Irish exporters to the UK would be disadvantaged relative to domestic UK producers by hard Brexit rules. The same direct/indirect impact paradox applies to cross-border shopping. The decline in the value of sterling increases the incentive for Republic shoppers to shop in the North, but a hard Brexit with customs rules, purchasing restrictions, border posts and delays would be a disincentive to cross-border shopping.

The decline in the value of Sterling relative to the euro in the Brexit period and its performance in earlier years are illustrated in Table 2.1

Table 2.1
Euro relative to Sterling Exchange Rate May monthly average 2010 to 2017 (1 euro = sterling)

May monthly average	1 sterling £=euro	1 euro=sterling £
2010	1.16667	0.85714
2011	1.13911	0.87788
2012	1.24423	0.80371
2013	1.17766	0.84914
2014	1.22647	0.81535
2015	1.38614	0.72143
2016	1.28569	0.77779
2017	1.16885	0.85554
15 September 2017	1.13581	0.88043

SOURCE: Central Bank

At time of writing, the latest monthly average exchange rate was May 2017. Between May 2015 and May 2017, the euro has increased in value by 18.6% compared to Sterling. Between May 2017 and September (currently), the euro appreciated further. The September 15th exchange rate was 0.88043. On August 30 Sterling declined to 0.92246. Between May 2015 and September 15th 2017, the euro has appreciated by 22.0%. This results in the Sterling cost of a €1,000 holiday in Ireland increasing between May 2015 and May 2017 by approximately £135 (from £721.43 to £855.54); the September 2017 cost is £880.43.

The same significant impact from a decline in the value of Sterling is felt by Irish exporters to the UK. In May 2015, an item selling in the UK for £100 would generate €138.61 to an Irish exporter. By May 2017 the same £100 would generate €116.89 in receipts to the Irish exporter, a decline of 15.7% which would be greater than the profit margins of most Irish indigenous exporters. Exporters to Ireland from the UK also get a strong advantage against Irish producers supplying the Irish domestic market. An item selling for €100 in the Irish market would generate an exporter from the UK £72.14 sterling in May 2015 but by May 2017 this had increased to £85.55 which gives the UK exporter substantial scope to reduce the price in the Irish market and/or improve margins.

Of course, the appreciation of the euro relative to sterling also reduces the price of imports of UK-sourced components, raw materials and other inputs for Irish producers and reduces somewhat the overall negative impact from the levels illustrated above.

Changes in the value of sterling are not a new issue for Irish enterprise. As shown in Table 1, in 2010 and 2011, the sterling/euro exchange rate was similar to current levels. Sterling appreciated between 2013 and 2015 and has declined since then. However, the variability in the exchange rate does not diminish its importance as a performance determinant nor does it change the significant impact of a weak sterling on current and future Irish economic performance in the drinks and hospitality sectors. The current decline in the value of sterling is not a short-term phenomenon but is expected to persist over the long term and may decline further. The size of existing EU tariffs on beverages and the impact of non-tariff barriers are discussed in section 5.

The direct and indirect effects of a hard Brexit will affect all aspects of the drinks and hospitality sectors. The effect will be mainly negative but there are some positives for specific elements of the two sectors. Hotels, restaurants and public houses are negatively affected through a reduction in UK-originating visitors. This also applies to off-licences, as a large proportion of the incoming visitors use self-catering accommodation. Wholesalers and importers will face increased transport and administrative costs for beverages sourced from or transited through the UK. These increased costs may be passed on to off-licence and on-licence retailers. The EU tariff structure places tariffs on cider, non-alcoholic beer and soft drinks; in a hard Brexit regime, this will increase the cost of these beverages imported from the UK and affect the range of wholesalers, hotels, restaurants, public houses and off-licences.

The weaker sterling increases the cost competitiveness of UK products in the domestic market which has an adverse effect on domestic producers. While this advantage will be partly offset in some beverages due to import tariffs, in others such as beer and whiskey, the EU does not impose tariffs.

Where Brexit decreases the cost of imports due to the exchange rate, domestic producers will lose out but consumers, wholesalers and retailers will gain depending on how the exchange rate translates into lower prices and on the distribution of the gain between the different segments of the market.

Domestic beverages producers who export to the UK will suffer from the hard Brexit range of trade restrictions and from the sterling depreciation. While they will gain an advantage over UK producers in EU markets through the trade restrictions, the sterling decline will adversely affect them. Through the exclusion of the UK from various EU/other international trade agreements, Irish exporters to these markets will gain. The cost of using the UK for transporting goods to and from other markets by Irish producers will increase due to customs delays, new documentation and regulations.

ESTIMATED SCALE OF IMPACT ON IRISH ECONOMY

The Department of Finance/ESRI have estimated the medium- and long-term effects of a hard Brexit. The expectation is:

- Relative to no Brexit, GDP will be 3.5% lower after 5 years and 4% after 10 years;
- Employment will be 2% lower or about 40k after 5 years;
- Unemployment rate will be up 1% point;
- Deficit up by 1% point per year leading to additional national debt of about €20b after 10 years;
- Exports decrease by 4%;
- Exports to UK decrease by about one third, especially bad for food exports.

These are very significant negative effects, especially on exports. In assessing the impact it is useful to understand the research methodology. For example, the estimates assume no policy reaction, such as measures to improve export competitiveness. It is assumed that the UK will operate the same tariff levels as are currently operated by the EU. This may not be the case. In addition, while 3% to 4% is broadly equivalent to one year's economic growth, some sectors will have a much larger negative effect such as the agri-food sectors. Despite Brexit, the Irish economy is expected to grow over the medium to long term by 2.5% to 3% per year. Brexit reduces the rate of growth by the cumulative 4% over the ten years. To put it into perspective, in our recent economic decline period, GDP volume declined by 6.9% between 2007 and 2013 and employment declined between Q3 2007 and Q3 2012 by 328k jobs.

ASSESSMENT OF IMPACT: TOURISM AND HOSPITALITY

British tourists are a large element of the Irish tourism market. The market structure of incoming tourism is outlined below. The headline figure which is used to illustrate the British role in Irish inward tourism is that of 9.584 million visitors in 2016; 3.924 million, or 40.9%, were from Britain. This is by far the largest single national market and is larger than the total of 3.301 million from the rest of Europe combined and the 1.808 million from the USA and Canada. There were 0.474 million visitors from the rest of the world. However, British visitors on average stay for shorter periods and spend less than other visitors and they account for a much smaller (but still large) share of tourism expenditure than that of visitors. The 2016 British share of inward tourism expenditure was 23.2% compared to the USA/Canada share of 29.2%. The rest of Europe share was 36.2%. The expenditure figures exclude carrier receipts. The average length of stay of British tourists is low at 4.2 nights compared to 7.2 nights for the USA/Canada and almost 9 nights for European visitors.

The tourism industry has reduced its dependence on the UK over the past few years. In 2009, 46.7% of visitors and 30.4% of revenue came from Britain. Market diversification away from the UK has been a policy objective of Tourism Ireland for the past few years.

There are different possible reactions by British tourists to the reduced competitiveness of the Irish tourism product. They could go elsewhere, and this would be reflected in reduced numbers of British visitors. However, they could still come to Ireland and spend less while on holiday, reduce the length of stay or change accommodation type. Recent research by Tourism Ireland of the British market found that British consumers considering taking a holiday abroad in 2017 confirmed these responses. The survey reported that:

- 50% will spend less while on holiday
- 37% will reduce their holiday budget
- 26% will change their accommodation type
- 25% will reduce the length of the holiday
- 17% will postpone a trip outside the UK

The 3.924 million visitor figure includes day trips from Britain as well as overnights. Excluding day trips, there were 8.428 million visitors in 2016 and Britain provided 40% of these. Britain was overrepresented in business trips where it had 47% of the total, and in visits to friends and relatives where it accounted for 56% of all visitors in this category.

Britain provided 31% of holidaymakers compared to 24% by the USA/Canada.

The main features of the substantial role of British visitors in Irish tourism are shown below:

- Britain provided, in 2016, 3.924 million visitors or 40.9% of all overseas visitors to Ireland compared to 3.301 million from the rest of Europe and 1.808 million visitors from the USA/Canada;
- Britain is by far the largest national market for inward visitors to Ireland (Germany has 0.652 million, France has 0.521 million);
- The Irish tourism market has reduced its dependence on the British market in recent years, from 46.7% of visitors in 2009 to 40.9% in 2016;
- British tourists stay for shorter periods and overall spend less than other visitors resulting in a much lower British share of visitor expenditure than of visitors;
- In 2016, Britain generated 23.2% of visitor expenditure, the USA/Canada share was 29.2% and the rest of Europe share was 36.2%;
- Britain was overrepresented in business trips where it had 47% of the total, and in visits to friends and relatives where it accounted for 56% of all visitors in this category;
- Britain provided 31% of holidaymaker visitors compared to 24% by the USA/Canada;
- Between 2012 and 2016 British visitor numbers grew by 41.5%; visitors from the rest of the world grew by 51.2%;
- British visitor expenditure between 2012 and 2016 grew by 29.5% while visitor expenditure by the rest of the world grew by 67.7%;
- The total amount of British visitor bednights was divided: 22% hotels, 6% guesthouses and B&Bs, 11% self-catering, 49% friends and relatives and 12% others. The total visitor bednights distribution was 18% hotels, 7% guesthouses and B&Bs, 25% self-catering, 25% friends and relatives, and 25% others;
- While British tourism has a large impact throughout the entire economy, some regions have a particularly high exposure to British inward visitor numbers. In the North-West British tourism revenue accounts for 47.3% of the regions overseas tourism revenue. The East and Midlands share was 36.1%. In contrast the Dublin share was 18.7% and Shannon's share was 24.2%.

There are several mechanisms through which Brexit will have a negative effect on the Irish tourism performance. The Brexit-related decline in the value of sterling, as already noted, has had a negative impact on Irish tourism competitiveness and has been associated with a large recent decline in the number of British tourists. A weaker UK economy reduces the willingness and ability of British people travelling abroad, through, for example, reduced real incomes and reduced confidence. The direct impact of a hard Brexit on the four freedoms will also be negative, but this will take some time to occur. Air services between the UK and the Republic may be negatively affected with restrictions on the rights of EU airlines to provide services to and from the UK and vice versa. There may be impediments to the flow of people such as visa requirements or delays through passport and visa checking. These changes could include the British Irish Visa Scheme which allows tourists from emerging markets such as India and China who have a visitor visa for the UK to also visit Ireland without an additional visa. The Common Travel Area between the UK and Ireland may also be affected with varying restrictions on travel.

Of course, the impact of direct Brexit changes will depend on the details of the post-Brexit UK/EU economic relationship. However, it should be noted that Ireland, and not the EU, is primarily responsible for the visa requirements of incoming visitors to Ireland. For example, Ireland decides on US and other non-EU visitor entry rules. There is no reason to expect Ireland will change these rules unless required by an EU access regime. However, British visitors would be non-EU after Brexit and would be subject to greater entry scrutiny than they are today.

Recent tourism performance has shown a decline in British visitors and a continuing increase in visitors from the rest of the world suggesting that a weaker sterling and slower UK economy are having a negative effect. Expenditure data is available, at time of writing, for Q1 2017. Numbers of visitors are available for March-May 2017.

Table 4.1 refers to the Q1 data and Table 4.2 refers to the more up to date May visitor numbers.

Table 4.1
Recent performance of incoming tourists, % change compared with 12 months previously (visitors and expenditure), British and non-British

	Q1 2016 %	Q2 2016 %	Q3 2016 %	Q4 2016 %	Q1 2017 %
British visitors	17.2	14.4	9.3	3.1	-6.5
British expenditure	18.2	9.3	9.1	2.1	-7.5
Non-British visitors	16.0	8.6	11.2	10.4	7.1

SOURCE: Derived from CSO Tourism and Travel Database

The notable feature of the data in Table 4.1 is the decrease in Q1 British visitors compared to continued, albeit lower, growth in non-British visitors. The British performance had begun to dip earlier from the high growth of 17.2% in Q1 2016 compared with 12 months previously to 14.4% in Q2, 9.3% in Q3 and 3.1% in Q4 2016. Expenditure by British visitors decreased by 7.5% in Q1 2017 which indicates the smaller number of British visitors on average spent less than 12 months previously. In Q4 2016 the growth in British expenditure was less than the growth in visitor numbers. In Q2 2016 British expenditure growth was substantially less than the growth in visitor numbers.

The non-British performance also dipped over the period under consideration, but not by as much as British visitors. In Q1 2016, the growth of non-British visitors was 16.0% compared with 12 months previously. In the following quarters, the growth was 8.6%, 11.2%. 10.4% and most recently 7.1%.

The latest visitors numbers show that in the period Jan-July 2017, compared with 2016, there was a decline of 6.2% in British visitors, an increase of 9.6% in non-British visitors and an increase of 3.1% in total visitors. However, the rate of decline in British visitors eased a little in the latest figures. In Feb-April there was a 10.7% decline in British visitors compared with a 4.0% decline in March to May.

Table 4.2
January to July % changes in visitor numbers (% change compared with 12 months previously)

	British	Total
January-March	-6.5	0.6
February-April	-10.7	0.1
March-May	-4.0	4.8
May-July	-3.8	4.4
January-July	-6.2	3.1

SOURCE: CSO Overseas Travel

In addition to the impact on the export side of tourism, there are also consequences for domestically sourced tourism. The indirect Brexit effect of a lower valued sterling increases the attraction of the UK as a destination for Irish domestic tourists relative to domestic holidays. The eventual direct effect of a hard Brexit, which increased the difficulty of tourist mobility, would enhance the attractiveness of the domestic market for Irish tourists.

A 6.2% annual decline in British tourism expenditure would be almost €70 million in 2017. Adding Northern Ireland visitors and increased Irish trips to the UK plus carrier receipts would increase the loss to around €100 million.

ASSESSMENT OF IMPACT: EXPORTS AND IMPORTS OF BEVERAGES

The direct impact of Brexit on drinks sector trade flows depends on the volume of trade and size of any eventual tariff and non-tariff barriers, and other impacts on transport and haulage. Of course, the immediate indirect effect of the sterling depreciation affects trade also.

This section examines exports and imports of beverages but the beverage enterprises also import inputs from abroad and use the UK as part of the export path to market. This aspect of the international trade relating to beverages is examined in section 7.

The Irish drinks industry generated exports of €1.29 billion in 2016, of which €301.6 million or 23.4%, went to the United Kingdom. €216.1 million was sold to Britain and €85.5 million was sold to Northern Ireland. The largest national market for Irish drinks exports is the United States with €512.0 million or 39.7%. Britain is our second largest national market for drinks exports and Northern Ireland is our third largest. The UK market share of 23.4% for drinks exports compares to a UK share of 14.1% for total Irish merchandise exports. Drinks exports are more dependent on the UK market than overall exports indicating a greater exposure to the trade restrictions of a hard Brexit. The data show the clear ability of the drinks industry to diversify its markets beyond the UK, but overall the UK is still responsible for a quarter of drinks exports. However, individual drinks products, such as soft drinks, cider and to a lesser extent, beer, are particularly reliant on the UK market, much more so than drinks overall, as shown later in this section.

The market structure of drinks exports is shown in Table 5.1

Table 5.1
Market Structure of Drinks Exports 2016

Market	€ million	% share of total drinks exports
Britain	216.1	16.8
Northern Ireland	85.5	6.6
United Kingdom	301.6	23.4
Rest of EU	297.8	23.1
EU	599.4	46.5
Non EU	689.1	53.5
United States	512.0	39.7
Rest of world	177.1	13.7
Total	1288.5	100

SOURCE: CSO trade data

The corresponding market structure for imports is shown in Table 5.2. The UK plays a substantial role in drinks imports into Ireland.

Table 5.2
Market Structure of Drinks Imports 2016

Market	€ million	% share of total drinks exports
Britain	300.9	36.5
Northern Ireland	38.4	4.7
United Kingdom	339.3	41.2
Rest of EU	302.9	36.8
EU	642.2	77.9
Non EU	182.2	22.1
United States	17.4	2.1
Chile	52.6	6.4
Total	824.2	100

SOURCE: CSO trade data

Drinks imports were €824.2 million in 2016 of which the UK provided €339.3 million or 41.2%. The UK provided 26.53% of our total imports resulting in drinks imports being more UK-focused than overall imports. Britain provided €300.9 million in drinks imports and Northern Ireland €38.4 million. Britain is by far the largest source of drinks imports followed by France with €92.5 million. By contrast, the USA, which is our main export market, provided only €17.4 million in imports compared to the UK €339.3 million. Chile is the largest non-EU source of drinks imports into Ireland. UK imports include products produced in the UK and products produced elsewhere but distributed from the UK.

Adding imports and exports, Irish drinks international trade was €2112.7 million in 2016, of which the UK accounted for €640.9 million, or 30.3% which is a relatively large share of drinks international trade.

The sectoral drinks export dependence on the UK/British market is shown in Table 5.3 below. There are very substantial differences with varying levels of impact from Brexit.

Table 5.3
UK role in individual export beverages 2016

Beverage	Exports € million	Exports to UK € million	UK share of sectors exports %
Soft drinks	133.9	81.8	61.1
Cider	66.2	50.3 (Britain only)	76.0
Beer	277.6	123.0	44.3
Whiskey	505.5	22.2 (Britain only)	4.4
Other spirits (mainly liqueurs)	293.7	11.8 (Britain only)	4.0

SOURCE: CSO Trade Statistics. (Where Britain only is stated, the CSO data does not separately distinguish Northern Ireland which indicates it is a small total).

Soft drinks exports are very reliant on the UK market and hence are particularly vulnerable to the negative effects of Brexit. 61.1% of soft drinks exports are sold on the UK market. The same is true of cider: 76.0% of cider exports are sold in the British market. Beer has a lower but still high share of its exports sold in the UK market, 44.3%.

The situation is very different for whiskey and liqueurs. Whiskey has been the drinks export growth story of the past few years but the UK has contributed little to it. Of €505.5 million in whiskey exports, only €22.2 million, or 4.4%, is sold in the British market. 68.4% of Ireland's whiskey exports are sold in markets outside the EU. The USA on its own accounts for €292.4 million, or 57.8%, of total whiskey exports compared to the British 4.4% share. In the liqueurs category, Britain accounts for only 4.0% of exports, almost the same as whiskey. Non-EU markets absorb 74.7% of Irelands liqueur exports compared to Britain's 4.4% share. The USA absorbs €145.2 million, or 49.4%, of total Irish liqueur exports.

Within the drinks export sector, soft drinks and cider are very exposed to the UK market. Beer is also significantly exposed to the UK, but whiskey and liqueurs have a small degree of exposure to the British market.

On the import side, as shown in Table 5.4, soft drinks accounted for €243.0 million of which Britain supplied €170.4 million or 70.1%. There was €249.5 million of wine imports (excluding sparkling wine) of which Britain supplied €19.9 million or 8.0%. Soft drinks, wine and beer dominate drinks imports. Britain supplied €45.5 million of beer imports or 29.1% of the total of €156.5 million. Whiskey imports were only €16.9 million and the British share is unavailable. Imports of other spirits and liqueurs amounted to €59.0 million of which Britain supplied €22.8 million and Northern Ireland €22.2 million. The UK share was 76.3%.

Overall, the British or UK-sourced drinks imports in 2016 were soft drinks, €170.4 million; beer, €45.5 million; whiskey, €6.4 million; liqueurs, €45.0 million; and wine, €19.9 million. The increased competitiveness advantage of UK drinks imports into Ireland will be most felt by domestic producers of soft drinks and, to a lesser extent, beer and liqueurs producers. Of course, any reduction in price due to the sterling depreciation is a benefit to Irish consumers.

Table 5.4
UK role in individual import beverages 2016

Beverage	Imports € million	Imports from UK € million	UK share of sectors imports %
Soft drinks	243.0	170.4 (Britain only)	70.1
Cider	9.7	Not available	
Beer	156.5	45.5 (Britain only)	29.1
Wine	249.5	19.9(Britain only)	8.0
Whiskey	16.9	Not available	
Other spirits (mainly liqueurs)	59.0	45.0	76.3

SOURCE: CSO Trade Statistics. (Where Britain only is stated, the CSO data does not separately distinguish Northern Ireland which usually indicates it is a small total).

In much of the discussion on the economic impact of Brexit, the beverages sector has been included in the food and drinks or agribusiness sector. Elements of the food sector have very high EU tariffs and as shown by the ESRI analysis, certain food exports would be significantly damaged by the imposition of these tariff levels by the UK in a hard Brexit regime. However, beverages face a very different and much lower tariff regime than for example, dairy and beef. Illustrative beverages tariffs are shown in Table 5.5 below.

Table 5.5
EU tariffs on beverages

Beverage	Tariff ad valorem %
Aerated waters	9.60 %
Non-alcoholic beer	9.60%
Fruit or vegetable juice diluted with water or aerated, particular characteristics	5.50% plus €12.10 per 100 kg
Fruit or vegetable juice diluted with water or aerated, particular characteristics	6.40% plus 413.70 per 100 kg
Malt beer	0%
Cider still (containers of 2l or less)	€7.70 per hl
Cider still (containers of more than2l)	€5.76 per hl
Whiskey	0%
Liqueurs	0%
Gin	0%
Rum with particular characteristics	€0.60/% vole/hl plus €3.20 per hl

SOURCE: Desk research

Two of the three main beverages exports to the UK from Ireland--soft drinks and cider--currently have EU tariffs. Beer has a zero EU tariff. Whiskey and liqueurs are tariff free, but exports of these to the UK are small. Ireland's main beverages imports from the UK are soft drinks which have tariffs.

Lawless and Studnika (2017) estimated the impact of a tariff and other barriers regime on exports and imports of various sectors, including beverages, to and from the UK.

Their methodology assumed that the current EU tariffs would be applied by the UK in a hard Brexit regime. This may not be the case as already discussed. For example, whiskey and beer are currently tariff free and the UK might not continue with this. The UK might impose higher tariffs than the EU rate on cider. However, the eventual UK tariff regime is not known, hence the assumption of the use of the current tariff regime. They included the impact of non-tariff barriers but the quantitative estimates were derived from international research as opposed to localised research on the impact of possible Brexit-related impediments on Irish exporters. Finally, international sectoral price elasticity estimates were used as opposed to individual Irish estimates. They estimated the impact on sectoral trade under three scenarios: scenario 1 is the impact of imposition of the current EU tariffs on Ireland/UK international trade (the WTO regime); scenario 2 includes the impact of tariffs and the impact of the estimated non-tariff barriers; and scenario 3 includes the effect of a 10% exchange rate change plus the tariffs and non-tariff barriers. The 10% refers to the immediate post Brexit rate of €1=82p moving to €1=90p.

Lawless and Studnika use what they describe as an "effective tariff" in their estimates. Tariffs are imposed on a product level and many products make up a sector such as beverages. Their effective tariffs are the trade weighted sectoral average. These effective tariffs can be different for imports and exports even with the same product tariffs because of different product compositions of imports and exports. This use of the word "effective" is different from the usual use of the term in international trade analysis where it refers to the actual or "effective" level of protection afforded domestic value added from a given nominal tariff which is relative to the value of the import.

Data are presented for 22 sectors. In terms of Ireland's exports to Britain, the beverages tariff is 2.9%. Eight of the sectors have lower sectoral effective tariffs. The live animals sector, at 2.9%, is the same and 12 have higher sectoral effective tariffs than beverages. At the higher end are meat and fish (59.2%) and dairy (46.6%).

The effective tariff for beverages imports from Britain is 4.7%. The difference with exports arises from the product composition differences. The average tariff for beverages exports to Northern Ireland is 1% and for imports from Northern Ireland is 2.1%. Table 5.6 summarises the impact on trade in beverages between Ireland and the UK under the three scenarios.

Table 5.6
Impact on beverages trade between Ireland Britain and Northern Ireland % of existing trade

	Ireland to Britain	Britain to Ireland	Ireland to Northern Ireland	Northern Ireland to Britain
Scenario 1 (WTO regime)	-2	-3	-1	-1
Scenario 2 (WTO plus non tariff barriers)	-8	-9	-5	-4
Scenario 3 (WTO, NTBs plus 10% exchange rate change)	-14	-3	-11	+2

SOURCE: Lawless and Studnika (2017)

In 2016, total beverages exports to Britain were €216.1 million, and to Northern Ireland, €85.5 million. In scenario 3, exports to Britain will fall by 14%, or €30.3 million, and exports to Northern Ireland will fall by 11%, or €9.4 million. The decrease in Irish beverages exports to the UK arising from Brexit is €39.7 million, or 13.2% of the total. Excluding the exchange rate change, the decline in beverages exports to Britain is 8%, or €17.3 million, and to Northern Ireland, 5% or €4.3 million. The combined UK decline is €21.6 million or 7.2%.

The tariff effect on exports from Ireland to Britain is a 2% decline, the non-tariff barriers effect is a 6% decline, and the exchange rate change causes a 6% decline. These three individual effects add to the 14% decline in scenario 3.

This indicates that non-tariff barriers are responsible for a much larger export decline than tariffs. Even if tariffs are kept relatively low in a hard Brexit, exporters will still suffer the effects of these other barriers. These impact estimates are based on international price elasticities and non-tariff barrier effects. Such detailed information is not available for the Irish situation at sectoral level. The actual impact may be significantly different from the above estimates.

There are other ways in which the above measures of export decline may be underestimate. The tariff analysis assesses incremental change in terms of a particular price increase; this will cause a decrease in demand but other aspects of the business model remain unchanged. However, significant costs of exporting and/or importing could lead to fundamental changes in behaviour and might encourage relocation of some production facilities to the UK where the UK market accounts for a large share of the output. This would displace a larger element of domestic production than the tariff/price/demand mechanism. Where a product depends for its description on being located in Ireland the scope for moving to Britain is limited or absent, but depending on eventual new rules of economic relations, it may be possible to move facilities to Northern Ireland.

We have examined the trade in beverages with the UK. However, as illustrated in section 7 below, a hard Brexit will also affect exports to non-UK markets through the use of the British international transport and distribution system. While only 23.1% of beverages exports are sold to the UK market, the bulk of the remaining 76.9% use the British transport system for both EU and rest of the world markets. In the case of a hard Brexit, these exports would also be affected by cost-increasing customs and documentation barriers or by having to use less efficient transport routes. The same issue arises with imports. A large proportion of the imports originating in economies other than the UK are transported through the UK.

Beverages exports from Ireland are dominated by a small number of large companies but there are significant export improvements expected from the many new distilleries and craft and micro-breweries. The UK, with its common language, business customs and proximity to Ireland is a good first export market. However, a hard Brexit will increase the cost and difficulty of exporting to the UK. The increased administrative requirements will be a particular problem for small enterprises and the large majority of the new breweries are very small and independent. There is a substantial increase in the number of distilleries, some of which have links with large international drinks companies. The distilleries are generally larger than the craft breweries but there are also many small distilleries. These small beverages firms will need assistance to develop their export markets.

The 2016 review of craft breweries by Feeney reported that 18% of output was exported and that two-thirds of small breweries export some of their output but generally only a small amount. Three craft firms accounted for 78% of exports. The majority of craft breweries expect to significantly increase exports and are aiming at an average export share of 40% of output. When asked to identify their top three export markets, the UK got most mentions.

The new distilleries are more export oriented than the craft breweries but also face increased difficulties in developing exports because of Brexit. Ultimately the whiskey export growth will depend on, and will be targeted at, markets other than the UK. However, the UK is a good first export destination for many of the new smaller distilleries but Brexit reduces its attractiveness.

ASSESSMENT OF IMPACT: CROSS-BORDER SHOPPING AND OTHER ECONOMIC FLOWS

As noted in the earlier discussion on the mechanisms of Brexit's impact, the decline in the value of sterling increases the incentive for Republic shoppers to shop in the North but a hard Brexit with customs rules, purchasing restrictions, border posts and delays would be a disincentive to cross-border shopping. The impact of the sterling decline is currently being felt but the new mobility rules restrictions of a hard Brexit, should that arise, will not be implemented for some time yet.

InterTrade Ireland conducts a regular survey of a selection of Northern Ireland shopping centre car parks to determine the proportion of cars with Republic of Ireland registrations. This measure has given a good indication of the trend of cross-border shopping activity and indicates a recent large increase in cross-border shopping.

Q4 2008 was the peak period for percentage of Republic-registered cars (65.5%) in shopping centres in Northern Ireland (of the period for which the information was collected). For six years of the seven-year period 2009 to 2015, Q1 was the largest quarterly share followed closely by Q4. In 2012, Q1 was lower than Q4. The most notable statistic in the context of this Brexit discussion is that of the nine Q3 observations, the latest one, 2016 is the highest. In Q3 2016, 56.8% of cars were Republic-registered compared to only 37.1% in Q3 2015 and compared with Q3 2008 when it was 56.3%. Up to Q3 2016, the highest value for Q3 since 2009 was 47.6%. The Q3 2016 percentage suggests a large increase in cross-border shopping by Republic residents and a return to the high levels of 2008/09.

Table 6.1
Percentage of Republic of Ireland-registered cars in a sample of Northern Ireland shopping centres

Period	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2008	Not available	Not available	56.3	65.5
2009	60.0	53.9	49.2	58.3
2010	53.8	45.3	44.3	51.6
2011	51.9	47.2	46.4	50.3
2012	46.5	46.9	41.5	49.2
2013	55.7	49.2	47.6	51.3
2014	48.5	45.6	45.1	37.2
2015	33.8	38.5	37.1	32.4
2016	33.0	43.6	56.8	

SOURCE: InterTrade Ireland

The exchange rate impact is reinforced by the lower alcohol tax in Northern Ireland (VAT and excise).

The Revenue Commissioners' survey of alcohol prices and tax differences between Northern Ireland and the Republic of Ireland show the significance of the tax differential. The survey refers to November 2016. It shows a significant difference between the two areas in terms of tax on alcohol (VAT and excise) for some alcohol products. The euro/sterling exchange rate used in the survey was 0.8470. The 27 June 2017 exchange rate was 0.88370. This more recent exchange rate change further increases the attraction of cross-border shopping.

Table 6.2
Comparative price and tax component in off-licence alcohol prices, November 2016, NI and ROI

BEVERAGE TYPE	PRICE ROI (€)	PRICE NI (€)	DIFF. (€)	EXCISE TAX ROI (€)	EXCISE TAX NI (€)	DIFF. (€)
Stout (500ml can)	2.12	1.97	**0.15**	0.87	0.78	**0.09**
Lager (500ml can)	2.05	1.75	**0.30**	0.87	0.81	**0.06**
Lager (330ml bottle)	1.66	1.18	**0.48**	0.63	0.50	**0.13**
Bottle of vodka	20.00	15.06	**4.94**	14.91	11.08	**3.83**
Bottle of whiskey	24.89	22.00	**2.89**	16.57	12.81	**3.76**
Bottle of wine (Chardonnay)	10.35	8.45	**1.90**	5.12	3.87	**1.25**
Bottle of wine (Sauvignon Blanc)	8.50	8.72	**-0.22**	4.78	3.91	**0.86**
Bottle of sparkling wine	17.25	13.26	**3.99**	9.60	5.36	**4.24**

SOURCE: Revenue Commissioners, November 2016 Cross-Border Price Comparisons

The tax difference in spirits is substantial: vodka is €3.83 and whiskey is €3.76 per bottle tax difference. The beer tax difference is lower. The sparkling wine tax difference is also large at €4.24. This would be a particular issue with lower priced sparkling wine. The tax difference in wine varies from €0.86 to €1.25 per bottle. The current differentials are sufficiently large to justify "special event" purchasing, such as for parties, domestic celebrations and other large-scale formal events. In addition, ordinary domestic purchasing can be done on an occasional basis providing households have the financial resources to engage in such bulk purchases.

As shown below, bulk buying, as opposed to small purchases, generates substantial savings in tax in addition to non-tax price advantages, based on the Revenue prices survey. As can be seen from the table below, there is a significant financial incentive for cross-border activity – particularly arising from tax differences. If one considers a basket of goods that would be deemed appropriate for a large party, the tax-related savings on the selected "party" bundle of beverages is €133.53.

Table 6.3
Financial savings on cross-border large purchases of alcohol

QUANTITY	PRODUCT	TAX SAVED PER UNIT (€)	TOTAL TAX SAVED (€)
3	Bottle of vodka	€3.83	€11.49
3	Bottle of whiskey	€3.76	€11.28
10	18 unit crate bottle lager	€2.34	€23.40
6	Bottle of sparking wine	€4.24	€25.44
6	Crate of bottles of Sauvignon Blanc	€10.32	€61.92
TOTAL			**€133.53**

SOURCE: Desk research

In 2009, the CSO published a report estimating the volume of cross-border shopping. The period covered was Q2 2008 to Q2 2009 and gives an indication of the potential current impact related to the indirect effects of Brexit. In the year Q2 2008 to Q2 2009:

- 16% of households had shopped in the North in the previous 12 months;
- The Border region was the highest at 41%, Mid-East was 22%, Dublin was 21%, Midland region was 18% and West was 14%. The regions furthest from Northern Ireland had the lowest proportion of households shopping in the North, the South-East (4%), the Mid-West (3%) and the South-West (2%);
- 34% of all cross-border shopping households were from the Dublin region;
- Average spending per household in the North in the year to Q2 2009 was €286;
- Total annual spending was €435 million;
- 44% of households bought alcohol;
- The mix of spending was groceries, €114; clothing and durables, €77; other products and services, €53, cosmetics, €11; and €32 (or 11.2%) on alcohol.

As already noted, the most recent car registrations data suggest a return to the 2008/09 levels of activity. Q4 2016 data will be available shortly. Between 2009 and 2016, personal consumption has increased in nominal terms by 13.1%. This is comprised of changes in the number of households and in consumption per household. On the assumption of a resumption of 2009 levels of cross-border shopping and a pro rata increase relative to national consumption growth, the current level of cross-border purchasing would be €503 million. The alcohol consumption level in 2016/17 is similar to, or a little higher than, the 2009 level, but the off-licence share is higher. This would suggest a higher alcohol share of cross-border purchasing than in 2009. We assume that 12% is spent on alcohol, giving an annual alcohol cross-border expenditure of €60 million.

ASSESSMENT OF IMPACT: SUPPLY CHAIN, PATHWAY TO MARKET AND TRANSIT ARRANGEMENTS

The role of the UK in the Irish international trade transport and distribution system merits a higher level of attention than it has hitherto received in the context of a hard Brexit. Much of the deep analysis has been on the impact on exports to the UK. There has, however, been extensive consideration of the economic linkages between the two economies on the island of Ireland. The Department of Transport, Tourism and Sport (2017) had a Brexit-related workshop on maritime transport. The Summary of Sectoral Dialogues (2017) document also included transport and noted concerns about the land bridge with the UK and the status of goods in transit; the impact of customs checks on the cross-border transit of goods; and infrastructure challenges for ports.

In the case of the beverages sector, a hard Brexit could include relatively low tariffs on some beverages but severe restrictions and increased costs relative to the current situation on the use of Britain as a transport/supply chain hub. The impact of Brexit on Irish exports and imports of beverages is not confined to the goods supplied to and sourced from the UK. Irish producers of beverages source non-beverage inputs from Britain and Northern Ireland. Irish beverages exporters and importers use Britain extensively as part of their supply chain channel and as a pathway to other markets. The UK is a very significant part of the transport and distribution system of the Irish economy's international trade with the world. A hard Brexit would increase the cost and reduce the efficiency of this system.

A survey of exporters by the Irish Exporters Association (2017) reported, as shown below, on the supply chain and pathway to market element of Brexit:

- 67% of exporters make use of the UK land-bridge to access continental markets;
- 59% of exporters make use of the UK land-bridge to position freight to continental airports/railheads/etc as part of supply chain to intercontinental markets;
- 57% of exporters said that if transit time through the UK land-bridge were to increase due to additional controls and/or costs were to increase, they would be able to supply using a direct shipping service to a Benelux or other continental port;
- 40% of exporters said that use of a slower direct route would adversely impact the quality of product;
- 53% of exporters said that longer time supply chain would seriously impact inventory and other costs.

As part of the preparation of this report, information was obtained from beverages exporters on their use of Britain and Northern Ireland in their supply chain and route-to-market strategies. The beverages sector makes extensive use of Britain as an access mode for global and other EU markets.

Consequently, even where a beverages sector's exports are mainly to the non-EU markets, Britain plays a role, and easy access to Britain's sea services contributes to efficiency. Even where exports to the UK are small, the impact of Brexit still looms large.

The following comments from different beverages companies illustrate the role of Britain regardless of whether Britain absorbs a small amount of beverages exports:

- "In terms of route to global (non-EU) markets, we use several ports in the UK:USA via Liverpool, Asia via Southampton and part container loads via London Gateway."
- "A substantial share of dry goods inputs (glass, packaging, caps etc) is sourced from the UK."
- "Sourcing inputs such as milk/cream from the UK."
- "Import of products 'packaged' elsewhere, e.g. from UK, for eventual export."
- "Some of our ingredients and packaging is sourced from Northern Ireland."
- "We use the UK land-bridge for mainland EU exports rather than directly from Ireland to the continent."
- "Worldwide exports use a variety of routes including directly from Ireland to the destination market, use of British ports and use of land bridge routes."

It is unclear how the new regulatory regime of a hard Brexit will affect these goods in transit or what increased costs of documentation and administration, as well as delays, will arise. In effect, some of the non-tariff barriers which were considered for beverages exports to the UK in section 5 will apply to much of the exports and imports of products not destined for, or originating in, the UK.

Bord Bia's Brexit Barometer Industry Findings (2017) report shows that 68% of food/drinks companies are unsure if their supply change partners are Brexit ready. 31% of food/drinks companies ship their EU purchases directly to Ireland bypassing the UK, while 69% use the UK route.

The drinks component of this report is comprised of 15 companies with the following strengths and weaknesses.

"The beverage alcohol sector has well-developed non-UK export markets, and is comfortable with levels of in-house customs-related experience. The non-alcohol sector has a stronger dependency on the ROI domestic and UK markets. However, very few respondents in both areas have taken actions to prepare for Brexit, such as examining what impact the introduction of customs requirements would have on UK sales".

The reported individual strengths and risks for drinks enterprises in the context of Brexit were as follows:

STRENGTHS:

- Export structure - 87% of respondents have customers in non-UK markets which indicates an existing ability to diversify markets;
- Route to Market - 93% believe they can sell more products from their current range to UK customers which indicates a confidence in drinks enterprises, although the weaker sterling raises cost concerns;
- Supply Chain - 73% of respondents' main products have a shelf-life of more than 42 days which indicates that the product is less vulnerable to customs inspection delays than, for example, fresh vegetables;
- Customs and Excise - 80% of respondents have experience complying with customs requirements for non-EU trade which indicates an ability to handle trade in a "non-free trade environment";
- Trade - 20% believe that the EU currently discourages the importation of competing non-EU products.

RISKS:

- Route to Market - 20% of respondents believe their company is resourced to target new UK opportunities which, of course, means 80% are not resourced;
- Supply Chain - 87% of respondents dependent on low supply chain costs and it is likely that a hard Brexit will increase supply chain costs;
- Supply Chain - 60% have not begun to reduce Brexit-related supply chain costs;
- Customs & Excise - 87% have not modelled impact of tariffs on UK revenues;
- Currency - 40% of respondents do not hedge non-Euro revenues.

All-island geographic indicators or designations (GI) apply to Irish whiskey, Irish cream and Irish poteen. This means that product made in either north or south can use the description "Irish". The EU protects its GIs by registering them in trade agreements and ensuring trade agreements recognise them. The UK's exit from the EU increases the complexity of protecting and maintaining these all-island designations. The ongoing detailed Brexit negotiations should ensure that Irish drinks GIs are maintained and supported.

Some drinks companies have all-island and Ireland/Britain integrated supply and production systems, including canning/bottling and inputs sourcing. For individual companies, the cross-border movements relating to inputs, semi finished products and finished products can amount to thousands of cross-border movements of goods annually. Customs checks and inspections on this volume of transactions would add significantly to transport and administration cost.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Direct and indirect effects of Brexit

The direct and indirect economic effects of a hard Brexit will affect all aspects of the drinks and hospitality sectors, including hotels, restaurants, public houses, off-licences, wholesalers and producers. The effect will be mainly negative. Direct effects refer to the impact of the new rules and regulations, which are yet to be determined and which will govern economic transactions between the EU (including the Republic of Ireland) and the UK (Britain and Northern Ireland). Indirect effects refer to the Brexit-induced depreciation of sterling, current and near-term reduced levels of economic activity, decline in consumer and investor confidence, and business decisions being made in anticipation of the new post-Brexit trade rules.

The post-Brexit options tend to be discussed in terms of “hard Brexit” and “soft Brexit”. A soft Brexit would retain many or most of the four freedoms of access between the UK and the EU. Consequently there would be limited changes to the current rules determining the flow of goods, services and people across the national borders of the EU members.

A hard Brexit moves us to the other spectrum of the ease/difficulty of undertaking trans-frontier business, far away from the frictionless border. In this case, there would be no special arrangements to facilitate the economic relations and flows between the UK and the EU. There would be a range of tariffs and duties applied to trade between the two areas. A range of non-tariff barriers, rules and regulations would also apply to trade and other economic flows. There would be restrictive rules on the flow of services between the two areas. New restrictive rules could apply to the provision of air services by one area to and within the other, and to transport/haulage services and transit arrangements.

Tariffs after Brexit

UK exports to the EU (including Ireland) would be subject to the current external trade regime with a range of service restrictions, tariffs and quotas on goods. The EU tariff structure is known. However, the UK would have to decide on its own tariff rates and structure and other rules of trade and trans-frontier business. Analysis of the impact on Ireland of a hard Brexit has generally assumed, as a research methodology input, that the UK would apply the same set of tariffs as it currently has against non-EU members by virtue of its EU membership. That may not be the case. The UK might adopt a cheap food policy and operate lower tariffs than the EU regime. Equally, it may wish to protect domestic manufacturers and impose higher tariffs than the current EU ones. For example, it might set a cider import duty, which is already relatively high for imports to the EU, at a higher level to support UK domestic producers. At present, there are no EU tariffs on beer and whiskey imports. The UK new tariff regime might not replicate this.

Sterling depreciation

The decline in sterling has reduced the competitiveness of the Irish economy relative to the UK. This, in turn, negatively affects Irish exports to the UK, Irish enterprises competing with UK imports in the Irish market, and Irish enterprises competing with UK exporters in markets other than the UK and Ireland. It increases the attractiveness of retail cross-border shopping and causes a reduction in the competitiveness of Ireland as a tourist destination for UK tourists and other tourists.

At time of writing, the latest monthly average exchange rate was May 2017. Between May 2015 and May 2017, the euro has increased in value by 18.6% compared to Sterling. Between May 2017 and September (currently), the euro appreciated further. The September 15th exchange rate was 0.88043. On August 30 Sterling declined to 0.92246. Between May 2015 and September 15th 2017, the euro has appreciated by 22.0%. This results in the Sterling cost of a €1,000 holiday in Ireland increasing between May 2015 and May 2017 by approximately £135 (from £721.43 to £855.54); the September 2017 cost is £880.43.

The lower value of sterling is expected to continue for the long term and may depreciate further against the euro.

Paradox of hard Brexit-induced improvement in Irish competitiveness

Paradoxically, the direct hard Brexit impacts of new restrictive trade rules will *improve* the position of Irish producers relative to UK producers in EU markets and the Irish market because the UK will face trade barriers into these markets. This will also apply to some of the rest of the world markets which have preferential trade agreements with the EU. For example, EU whiskey can be imported into Korea free of tariffs due to a trade agreement with the EU. The UK after Brexit would not be party to this agreement. Irish exporters to the UK would be disadvantaged relative to domestic UK producers by hard Brexit rules. The same direct/indirect impact paradox applies to cross border shopping. The decline in the value of sterling increases the incentive for Republic shoppers to shop in the North but a hard Brexit with customs rules, possible purchasing restrictions, border posts and delays would be a disincentive to cross-border shopping.

Tourism

British tourists are a large element of the Irish tourism market. The headline figure which is used to illustrate the British role in Irish inward tourism is that of 9.584 million visitors in 2016, 3.924 million or 40.9% were from Britain. This is by far the largest single national market and is larger than the total of 3.301 million from the rest of Europe combined and the 1.808 million from the USA and Canada. However, British visitors on average stay for shorter periods and spend less than other visitors and they account for a much smaller (but still large) share of tourism expenditure than other visitors. The 2016 British share of inward tourism expenditure was 23.2% compared to the USA/Canada share of 29.2%. The rest of Europe share was 36.2%. The average length of stay of British tourists is low at 4.2 nights compared to 7.2 nights for the USA/Canada and almost 9 nights for European visitors.

In the period Jan-July 2017, compared with 2016, there was a decline of 6.2% in British visitors, an increase of 9.6% in non-British visitors and an increase of 3.1% in total visitors. A 6.2% annual decline in British tourism expenditure would be almost €70 million in 2017. Adding Northern Ireland visitors and increased Irish trips to the UK plus carrier receipts would increase the loss to around €100 million.

The sterling change increases the attractiveness of the UK destination for all visitors, UK customers, Irish visitors and rest of the world visitors.

Exports and imports of beverages

The direct impact of Brexit on drinks sector trade flows with the UK depends on the volume of trade and size of any eventual tariff, non-tariff barriers and other impacts on transport and haulage. Of course, the immediate indirect effect of the sterling depreciation affects trade also. Exports to other countries are also affected by Brexit. The various Brexit-related restrictive rules will also affect beverages exports destined for markets other than the UK because Britain's land and maritime infrastructure and services play a large part in the transport and distribution of these exports.

The Irish drinks industry generated exports of €1.29 billion in 2016, of which €301.6 million, or 23.4%, went to the United Kingdom. This compares with 14.1% of total goods exports going to the UK. €216.1 million was sold to Britain and €85.5 million was sold to Northern Ireland. The largest national market for Irish drinks exports is the United States with €512.0 million, or 39.7%. Britain is our second largest national market for drinks exports and Northern Ireland is our third largest. The drinks exports are more dependent on the UK market than overall exports indicating a greater exposure to the trade restrictions of a hard Brexit. The data show the ability of the drinks industry to diversify its markets beyond the UK but overall the UK is still responsible for a quarter of drinks exports. However, individual drinks products such as soft drinks and cider, and to a lesser extent, beer, are much more reliant on the UK market than beverages as a whole. Whiskey and liqueurs are not reliant on the UK market.

Soft drinks exports are very reliant on the UK market and hence are particularly vulnerable to the negative effects of Brexit. 61.1% of soft drinks exports are sold on the UK market. The same is true of cider, 76.0% of cider exports are sold in the British market. Beer has a lower but still high share of its exports sold in the UK market, 44.3%.

The situation is very different for whiskey and liqueurs. Of €505.5 million in whiskey exports, only €22.2 million or 4.4% is sold in the British market. 68.4% of Ireland's whiskey exports are sold in markets outside the EU. The USA on its own accounts for €292.4 million or 57.8% of total whiskey exports compared to the British 4.4% share. In the liqueurs category Britain accounts for only 4.0% of exports, almost the same as whiskey. Non-EU markets absorb 74.7% of Irelands liqueur exports compared to Britain's 4.4% share. The USA absorbs €145.2 million or 49.4% of total Irish liqueur exports.

On the import side, soft drinks accounted for €243.0 million of which Britain supplied €170.4 million, or 70.1%. There was €249.5 million of wine imports (excluding sparkling wine) of which Britain supplied €19.9 million or 8.0%. Soft drinks, wine and beer dominate the drinks imports. Britain supplied €45.5 million of beer imports, or 29.1% of the total of €156.5 million. Whiskey imports were only €16.9 million. Imports of other spirits and liqueurs amounted to €59.0 million, of which Britain supplied €22.8 million and Northern Ireland €22.2 million. The UK share was 76.3%.

Overall, the British or UK-sourced drinks imports in 2016 were soft drinks, €170.4 million; beer, €45.5 million; whiskey, €6.4 million; liqueurs, €45.0 million; and wine, €19.9 million. The increased competitiveness advantage of UK drinks imports into Ireland will be most felt by domestic producers of soft drinks and, to a lesser extent, beer and liqueurs producers. Of course, any reduction in price due to the sterling depreciation is a benefit to Irish consumers.

In a hard Brexit/WTO regime, Ireland's exports to Britain have a relatively low average beverages tariff of 2.9%. At the higher end of the tariff levels are meat and fish (59.2%) and dairy (46.6%).

The effective tariff for beverages imports from Britain is 4.7%. The difference with exports arises from the product composition differences. The average tariff for beverages exports to Northern Ireland is 1% and for imports from Northern Ireland is 2.1%.

Total beverages exports to Britain were €216.1 million and to Northern Ireland were €85.5 million in 2016. In scenario 3 (tariffs, non-tariff barriers and a 10% sterling decline) exports to Britain will fall by 14% or €30.3 million and exports to Northern Ireland will fall by 11% or €9.4 million. The overall decrease in Irish beverages exports to the UK arising from Brexit is €39.7 million or 13.2% of the total.

Excluding the exchange rate change, the decline in beverages exports to Britain is 8%, or €17.3 million, and to Northern Ireland, 5% or €4.3 million. The combined UK decline is €21.6 million or 7.2%.

A hard Brexit will also affect exports to non-UK markets through the use of the British international transport and distribution system.

While 23.1% of beverages exports are sold to the UK market, the bulk of the remaining 76.9% use the British transport system for both EU and rest of the world markets. In the case of a hard Brexit, and depending on transit rules, these exports would also be affected by cost-increasing customs and documentation barriers or by having to use less efficient transport routes.

The same issue arises with imports.

Cross-border retail purchases
The most recent (Q3 2016) car registrations data suggest a return to the 2008/09 levels of cross-border retail purchasing. Q4 2016 data will be available shortly. On the assumption of a resumption of 2009 levels of cross-border shopping and a pro rata increase relative to national consumption growth since 2009, the current level of cross -order purchasing would be €503 million per year. This would suggest an annual alcohol cross-border expenditure of €60 million.

Supply chain, pathway to market and transit arrangements
The role of the UK in the Irish international trade transport and distribution system merits a higher level of attention than it has hitherto received in the context of a hard Brexit. The impact of Brexit on Irish exports and imports of beverages is not confined to the goods supplied to and sourced from the UK. Irish producers of beverages source non-beverage inputs from Britain and Northern Ireland. Irish beverages exporters and importers use Britain extensively as part of their supply chain channel and as a pathway to other markets.

All-island drinks geographic indicators
The UK's exit from the EU increases the complexity of protecting and maintaining these all-island designations. The ongoing detailed Brexit negotiations should ensure that the Irish drinks GIs are maintained and supported.

RECOMMENDATIONS

Among the Government's Brexit priorities are the maintenance of the Ireland/UK Common Travel Area, a soft land border on the island of Ireland, and avoiding damage to trade and the economy. These are all consistent with mitigating the direct and indirect negative effects of a hard Brexit on the drinks and hospitality sectors.

The negative effects of Brexit on the drinks and hospitality sectors relative to a non-Brexit situation are a reduction in cost competitiveness; an increase in the cost of doing business and especially exporting through new restrictive rules, regulations and administrative requirements; more restrictive access to the UK transport and maritime infrastructure and services; and a possible reduction in the ease of tourist access and negative implications for air services. The aim of policy should be to ameliorate or compensate for these negative effects to the maximum extent possible. Within the trade and economy objective, government policy aims to:

- Maintain close trade between UK and Ireland/EU;
- Minimise regulatory burden for goods transiting the UK;
- Improve the business environment, improve competitiveness, have better infrastructure and achieve diversified markets.

Ireland does not control the exchange rate and is only one of many voices in the broader Brexit negotiations, notwithstanding the appreciation and understanding of our situation on the part of all parties to the negotiation. There has been much comment on "Brexit-proofing" budgets and Government policies.

It is not possible to “Brexit-proof” the economy. There is no guarantee that Irish enterprises or the Irish Government can find acceptable or cost-effective solutions to offset these negatives or that proposed solutions will be acceptable to, for example, the EU. In the context of overall Government priorities and financial resources there are tight constraints on funding the desired range of policies. However, notwithstanding the fact that resources are finite, it is generally recognised that Brexit poses a significant and wide-ranging threat to the economy and to specific sectors, and measures to deal with the negative effects should have a very high priority in public policy decision-making and resource allocation.

While the focus of this report is the drinks and hospitality sectors, there are certain broad recommendations relating to the economy which also impact on the drinks and hospitality sectors.

The following broad approaches are recommended:

- Efficient and effective management of the economy and its constituents, especially the public finances;
- Rethink short- and medium-term public financial allocations to reflect the national threat to cost and overall competitiveness posed by a hard Brexit and the increased importance of improving the tourism product, enhancing the attractiveness of Ireland and diversifying markets;
- Measures to strengthen enterprise, sectoral and national cost and overall competitiveness;
- Specific support for exposed sectors and enterprises, if possessed of reasonable commercial potential, such as short-term financial support and enhanced productivity and enterprise capability measures, and additional market diversification measures (these would have to be acceptable to the EU in terms of state aid rules or acceptable in the context of the Brexit problems and to the UK in terms of “unfair trading practices”). This is of particular importance to the emerging small brewing and distilling enterprises and tourism enterprises;
- Seek EU agreement for and financial support for specific Brexit response measures given the relatively large negative Brexit impact on Ireland;
- The role of the UK in the Irish international trade transport and distribution system for both imports and exports merits a higher level of attention than it has hitherto received in the context of Brexit-related policy consideration, analysis, assessment of options and research;
- Government and various official and unofficial bodies have done a very good job in generating awareness of the national and sectoral implications. It is necessary to deepen our knowledge and develop an understanding of the day-to-day implications at the microeconomic sectoral and enterprise level, such as customs documentation and management, export administration, and to design and provide the training to develop necessary new skills. Generally large firms can cope with these issues from their own efforts, but smaller firms face difficulties.

Of specific relevance to the drinks and hospitality sectors are the following recommendations:

- Individual drinks and hospitality enterprises (the same applies to all sectors) have the primary responsibility (supported by the public policy framework) to assess the implications of Brexit on their enterprises and, where possible, plan and implement measures to deal with these implications. This is already being done in the context of Bord Bia’s Brexit Barometer and the Enterprise Ireland Brexit Scorecard. However, these excellent initiatives cover only clients of the two companies which are mainly exporting food and drinks enterprises, manufacturing businesses, and international services companies. The drinks and hospitality sectors contain many types of companies which are excluded from the client base of these two development companies, such as wholesalers, public houses and visitor attractions. Mechanisms should be designed to include these enterprises in the individual enterprise “Brexit assessment exercise” and to provide them with access to supports such as the Enterprise Ireland “Be Prepared Grant” which currently applies to EI clients with significant UK exports. Brexit affects all sectors of the economy, not just manufacturing/international services firms with significant UK exports.

Beverages trade associations and hospitality trade associations are in a position to play a more active role in informing sectors and enterprises of the implications of Brexit and in their responses.

- Alcohol excise tax in Ireland is the second highest in the EU on an average basis (Foley 2017) and has a negative impact on the development and export potential of the industry and on tourism competitiveness. In light of the cost-increasing impact of Brexit, a reduction in alcohol excise is a measure which would ameliorate some of these cost increases and, unlike some other issues, is within domestic policy control.
- In light of the decline in the value of sterling caused by Brexit and the associated reduction in cost competitiveness, the 9% VAT rate should be retained to avoid additional competitiveness losses.
- The ongoing detailed Brexit negotiations should ensure that the Irish all-island drinks GIs are maintained and supported.
- The broad impact of Brexit is to increase the cost of international trade transactions and indirectly, through the exchange rate impact, to impose additional cost penalties. Government policy should avoid, where possible, increasing the cost of doing business, both directly through additional or larger financial charges, and indirectly through regulation induced or policy induced cost increases. This should be a core element of policy for the next several years until the Brexit regime is identified and its effects known, and to help cope with the immediate and current effects of the sterling decline.

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