

**Paper from:** Newry Mourne and Down District Council

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**Purpose of paper:** Key issues and Considerations for Brexit

## **1. Introduction**

- 1.1. Newry Mourne and Down District Council have been working closely with our businesses and stakeholders to prepare, as far as possible for Brexit. Our Council District has 40 border crossings including Newry City at the heart of the Belfast-Dublin economic corridor. A smooth transition is key to ensure that our businesses and services continue to trade, grow and develop.
- 1.2. Political negotiations are central to the concerns held by Newry, Mourne and Down District Council SMEs, particularly the uncertainties that exist regarding securing a Future Trade Agreement or a no-deal Brexit. Uncertainty exists on whether the Northern Ireland Protocol will be upheld or overturned. Indeed, whether a hybrid model could be agreed resulting in Northern Ireland existing in a customs union with BOTH Great Britain AND in the EU. Nevertheless, in the absence of clear certainty, businesses are grappling to prepare at this stage as the situation could invariably change.
- 1.3. Our District has the second highest rate of new start businesses in Northern Ireland, adding to the diversity of the enterprise base. Along with top-class businesses operating in the Corridor, there are also businesses in the 'low growth, low margins' profile, who are more likely to be 'at risk' post transition period.
- 1.4. Current focus in the short term for SMEs appears to be dealing with the Coronavirus pandemic and associated restrictions. The fluidity of the Covid 19 situation is time consuming and undoubtedly worrying for businesses who are understandably concentrating on adaption and survival, particularly in specific sectors which have been more heavily impacted than others.
- 1.5. Anecdotal evidence would suggest SME's in Newry, Mourne and Down District Council are delaying their preparations in dealing with Brexit until more concrete policies are confirmed, at which stage any supports available will need to be intensified.
- 1.6. Research by InterTrade Ireland has indicated that:
  - a) Prior to the pandemic, 42 per cent of businesses say they were in growth mode; this has now dropped to 15 per cent.
  - b) The number of businesses across the island that are in decline has jumped from 7 per cent, to 53 per cent

- c) Only 14 per cent of businesses surveyed have made preparations for Brexit; increasing to 30 per cent of cross-border traders.
- d) The total cross border trade for 2018 amounted to £6.515bn, with North to South trade £4.169bn and South to North trade £2.346bn.
- e) Cross border trade in Manufacturing goods, based on North to South trade, in 2018 amounted to £3,442.6m, with the top 3 performers in Food, Drink and Tobacco (£715m); Basic Metals and Products (£147m); and Mechanical Engineering (£96m).
- f) Cross border traders have higher productivity, turnover and employment based on 2019 figures.

Over the next few sections we will focus on a number of key areas of concern:

Section 2:	Composition
Section 3:	Infrastructure
Section 4:	People
Section 5:	Funding
Section 6:	Support
Section 7:	Conclusions and Recommendations

## 2. Composition

- 2.1. Europe remains Newry, Mourne and Down District Council's largest export market on our doorstep. A higher percentage of businesses in the border region sell into the cross-border market, the EU and GB than in the rest of Northern Ireland or rest of Ireland. The Republic of Ireland is an important first step to export markets for many small businesses. Following success in the Republic of Ireland, SME's often branch out into other export markets. **It is therefore important that there are no bureaucratic or financial barriers to the Republic of Ireland market.**
- 2.2. Anecdotal evidence suggests some southern businesses are no longer considering Northern Ireland businesses as part of the review of their supply chains. It is important that the Executive works with the Irish Government to retain and grow trading relationships throughout the Island.
- 2.3. The total cross border trade for 2018 amounted to £6.515bn; North to South trade was £4.169bn and South to North trade was £2.346bn. Cross border trade in Manufacturing goods, based on North to South trade, in 2018 amounted to £3,442.6m, with the top 3 performers in Food, Drink and Tobacco (£715m); Basic Metals and Products (147m); and Mechanical Engineering (£96m).
- 2.4. EU trade by firms in the border council areas represents 22 per cent of total sales. This compares to only 10 per cent of sales by Northern Ireland businesses outside of the border area. Sales to the EU from the border council areas are largely driven by the agri-food and advanced manufacturing sectors, which accounts for 77 per cent of border council area sales to the EU.

### Sectoral considerations

- 2.5. **The exposure to risk is much higher for agri-food sector with much of the sector sending 90 per cent plus of the exports to the Cross border or UK market, who will face higher tariffs.**
- 2.6. **Fish Producers** rely on produce landed at Ports outside NI. Efficient movement of produce across the border to allow this to happen post Brexit is essential to ensure viability of fish producing in Kilkeel and Ardglass which provide significant employment in the region.
- 2.7. While the Southern market is of more importance to the NI economy as a whole, than the Northern market is to the Irish one, the important issue is how **critical North/South (and East/West) trade** is for smaller and indigenous businesses, crucial to the economies on either side of the border. Additionally, these markets are important for any policy of increasing the number of exporters starting businesses along an exporting pathway.
- 2.8. **Tourism** was worth £61m to Newry, Mourne and Down District Council area in 2016; had the third highest area for tourism spend in 2017; and the area that

received the highest growth rate. Tourism will undoubtedly benefit from interventions to continually grow. However, given the Cross-Border flow of tourists, this could be adversely impacted with perceptions in difficulties to cross the border.

- 2.9. **Cross border shopping** is worth £40m to the local economy, however Retail could experience a return of the volatility associated with exchange rate fluctuations following the transition period. Separately the Covid 19 pandemic has resulted in an increase in online sales, presenting further potential losses in turnover to local retailers.
- 2.10. A drop in **retail** footfall in Q1 and Q2 2020 was recorded due to the pandemic, which changed with an uplift in cross border shopping flows both ways in Q3, with North to South shopping at 13 per cent, up from 9 per cent and South to North shopping at 16 per cent, up from 9 per cent.
- 2.11. **Services** are a significant part of Newry, Mourne and Down District Council economy, with Cross border services accounting for £3.07bn in 2018, the highest in the previous 7 years. Services are not covered by the protocol and it is unclear whether they will be covered by any Free Trade Deal, yet the service sector needs to be able to trade with the rest of the island.
- 2.12. It is widely anticipated that all businesses will suffer increased costs post 1 January 2021, therefore they need to fully understand the financial implications Brexit will present and affect cashflow, to enable planning for any resulting shortfalls regarding VAT or Excise duties. Indeed, the issue of VAT and the potential impact that this will have on the All Island economy for businesses North and South in tendering and delivering services in the other jurisdiction needs to be clarified.
- 2.13. Furthermore, there could be increased competition to SMEs in the Newry, Mourne and Down District Council area depending on the outcome of the trade negotiations, resulting in vulnerability.
- 2.14. **Foreign Direct Investment** is much more uncertain for Newry, Mourne and Down District Council region than in Southern Border Counties. Given that knowledge-based service sectors are key to recent Foreign Direct Investment, there is a potential risk as it relies heavily on single market access.

### **3. Infrastructure**

- 3.1. Northern Ireland's **second largest port is located at Warrenpoint**. As one of the three main points of entry for goods entering NI from GB, Warrenpoint mainly accepts steel, timber, grain, along with accompanied and unaccompanied freight carrying high risk foods<sup>1</sup>.
- 3.2. On the 1<sup>st</sup> January 2021 GB will become a Third Country when high-risk foods imported into NI from GB will be subject to Agri-Food import checks at point of entry to ensure they meet EU standards to protect public, animal and plant health. Such foods can only be imported through EU designated points of entry with the prescribed facilities to carry out the checks.
- 3.3. Operations and staffing concerns
  - 3.3.1. Works have not yet commenced for the planned inspection facilities at the proposed Point of Entry at Warrenpoint Port.
  - 3.3.2. DAERA have submitted a Certificate of Lawful Use or Development to Newry, Mourne and Down District Council in relation to the development.
  - 3.3.3. Building control have engaged with DAERA in relation to the proposed facilities.
  - 3.3.4. Contingency arrangements are being proposed at the port for Day 1, i.e. 1 January 2021. The appointed contractor to commence work on the contingency infrastructure in the first instance.
  - 3.3.5. Levels of checks to be undertaken during the contingency period have not been shared with council or agreed with the EU.
  - 3.3.6. The facilities planned are based on the assumption that the EU will agree significantly reduced levels of checks on GB-NI imports. If the EU do not agree to the level of reduced checks assumed the planned facilities will need to be up scaled.
  - 3.3.7. Newry, Mourne and Down District Council have identified the need for 3.5 FTE EHOs to undertake the work at the port.
  - 3.3.8. New and existing staff are commencing an intensive training programme in relation to the new functions required at the Point of Entry

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<sup>1</sup> For the purposes of this paper high risk foods are considered those foods that are subject to mandatory agri-food checks on import into NI/EU. They include products of animal origin, fish and fishery products, and certain products not of animal origin identified as high risk by EU regulation. They also include plastic kitchenware from china and Hong Kong.

- 3.3.9. Under current EU legislation food import checks are on a cost recovery basis with importers required to pay for them. DAERA are considering funding options with checks potentially being funded by the public purse. It remains to be determined if this will be permitted under EU law.
- 3.3.10. There are significant requirements relating to the export of high risk products into NI/EU including obtaining export health certificates/official certificates from GB certifying officers (OVs/EHOs) for each product consignment confirming the product complies with EU requirements. The certificates must accompany the consignment to be checked on import. Lorries containing multiple commodities will require multiple certificates.
- 3.3.11. Importers within NI/EU will also have new procedures to pre-notify the Council/DAERA of high risk consignments in advance and these will be held by customs until food import checks are complete and the products released.
- 3.3.12. Checks can involve documentary, identification, and physical checks including sampling. Where sampling is required consignments will not be released until sample results are available from the laboratories, this can take up to 7 days.
- 3.3.13. It also anticipated that health attestations may be required for products being exported from NI to GB for subsequent export into the EU. DAERA are the responsible authority for exports (with EHOs having responsibility for export health certification of fish), however, it is anticipated they may request support from Councils to provide attestations for premises in which Councils are the enforcement authority. Should Councils be asked to provide this service, consideration will need to be given to the resource implications and funding arrangements.
- 3.3.14. With the number of fish processors within Newry, Mourne and Down Council, there is likely to be an additional resource burden on the council to provide supporting health attestations to businesses exporting fish and fishery products from NI to GB subsequently for the EU. A questionnaire has been sent to relevant businesses in the district to establish the potential demand on Council's EH service.
- 3.3.15. While plans are in progress to inform traders/stakeholder of these implications on their businesses and steps they will need to take, engagement has not yet commenced. Newry, Mourne and Down District Council are continuing to work closely with DAERA to support trader readiness of importers/exporters.

- 3.4. The harbour authority, as are all the NI ports, are working on the understanding of what they assume the NI protocol means, however during negotiations between UK Government and EU there have been instances of how the draft protocol has been interpreted differently. Harbour managing authorities are concerned around the potential for last minute changes and the impact these could have on operational management of port activity at the eleventh hour.
- 3.5. The impact on travel times and access to the region could also be negative for the area and deter visitors as any physical infrastructure will slow traffic and hinder the economy. Any opportunities that Brexit could present will rely on excellent infrastructure to ensure the efficient movement of goods to and from Northern Ireland businesses.
- 3.6. It is imperative that all businesses in Newry, Mourne and Down District Council, particularly those in the rural areas have access to technology and connectivity required to conduct their business in an efficient manner.
- 3.7. The Irish Government recently announced £500m to build and enhance cross border projects. Newry, Mourne and Down District Council would like to work with the Irish Government and the NI Executive to support infrastructure projects in the area and the enhancement of community and economic cooperation. We would welcome the Executive's support in our engagement with the Irish Government.

#### **4. People**

- 4.1. Brexit and any changes to borders is, of course, about much more than the changing terms of trade. Any change to the current free movement of people has an impact on local communities, something highlighted in repeated surveys and in the evidence of more than 100 million border crossings every year. There is the potential chill factor for current EU citizens living in the NI Border Councils, with high concentrations working in local manufacturing businesses and against any future migrants considering the Corridor as a place to live.
- 4.2. The proximity of the border will accentuate the labour market issues and movement of people which will present various implications, to include the risk of residents immigrating or the risk of businesses relocating to more favourable economies offering greater potential and opportunities.
- 4.3. Our region has numerous examples of businesses that have complied with advices on registering workers, however as we move past 1 January 2021 it is not clear how they will meet their human resource requirement as a result of staff turnover or as a result of planned growth due to complexity of labour market flows in a border area.
- 4.4. Many sectors along the border corridor rely on EU and non-EU migrant labour, with agri-food and fisheries, tourism, manufacturing and service sectors being most reliant on this new labour. Between 30 per cent to 55 per cent of the labour force in the seafood industry is migrant labour.
- 4.5. As a border council area, skill-based migration and cross-border commuting is vital. Access to labour and potential impact on the commute to work is an obvious threat.
- 4.6. Professional qualifications have been harmonised across EU, if there is UK divergence in the future in relation to standards how will this impact those living in NI but working in EU? This is of particular relevance to a border region such as Newry Mourne and Down, given the reliance of the Southern economy for many skilled staff in the service sector, will they be able to work and compete for contracts in ROI and beyond.



## **5. Funding**

- 5.1. The cumulative pot for Northern Ireland funding only in 2014-2020 (including CAP estimated at €3.5bn) from EU monies, relatively speaking, this is quite small in the overall spending (2-3%) but critical for some sectors which have built strategies around EU supports for example North West EU Unit, Newry/Dundalk plans, etc.
- 5.2. Approximately €3.4bn in Peace and Interreg monies up to 2020 has been invested in Northern Ireland and Southern Border Counties. However, more assistance is needed for the sectors with the highest exposure to risk of an end to EU funding such as community, voluntary and business sectors.
- 5.3. Research funding for Northern Ireland has a target of €145m from the current round, in comparison to €23m secured in 2015/16 year.
- 5.4. Newry, Mourne and Down District Council are in receipt of a number of Letters of Offer which secure EU funding to December 2022 for economic development, rural development, and peace and reconciliation projects. This will ensure delivery of business support programmes and other initiatives for a further two years, as Letters of Offer were secured prior to Brexit and the EU has committed the funding beyond March 2019.
- 5.5. It is accepted that Peace plus and the Shared Prosperity Fund are programmes being developed post 2022 when current EU programmes end, however this Council would advocate that these funds are essential to support all sectors of the economy to develop beyond Brexit and there is an urgent need to ensure reduced bureaucracy and a more area based planning approach adopted to how these fund are allocated to ensure Local Authorities can target programmes to meet local needs.

## **6. Support**

- 6.1. Compliance and enforcement issues for local businesses are likely to arise post transition, however it is difficult for business to plan due to the absence of a deal or any associated detail. Business impacts will vary with particular sectors being more impacted than others. Hence, key information for sectors is vital for preparation and the identification of support.
- 6.2. Given the likelihood of the increased administration which will be required from 1 January 2021, businesses should be preparing documentation, policies and procedures, however without clear guidance on the Brexit outcome, businesses are delaying.
- 6.3. Many large businesses in the region have Brexit plans in place to some degree, they accept that these will need tweaked as clarity emerges from discussions. But for many SMEs Covid and the ongoing disjointed nature of exit negotiations has created apathy among many and no preparation has taken place. Invest NI, InterTrade Ireland, Chambers of Commerce and Trade and Local Authorities have been offering support, but it has been general, therefore presenting an urgent need for a structured marketing campaign coupled with detailed support programmes to assist businesses to prepare.
- 6.4. With the end of the transition period imminent, businesses need to understand the critical need to engage with the assistance currently available to them. Newry, Mourne and Down District Council businesses have been urged, particularly over the last quarter to:
  - Register for the UK Government's Trader Support Service
  - Attend webinars with Invest Northern Ireland
  - Apply for InterTrade Ireland Planning Vouchers
- 6.5. Other supports emphasised to SMEs include training from:
  - European Commission
  - Institute of Export and International Trade
  - Northern Ireland Chamber of Commerce and Newry Chamber of Commerce
  - The top priority of residents in Newry, Mourne and Down District Council is to support local businesses, attract investment and jobs. In response to this, Newry, Mourne and Down District Council have produced specific tailored programmes of support to SMEs highlighting key Brexit preparations required.
- 6.6. Promotion of all available support will continue to be highlighted to SMEs to encourage increased participation.
- 6.7. There remains some uncertainty about whether businesses will have access to EU procurement opportunities post transition. This is an important area of business

and it is vital that businesses can continue to avail of these opportunities, offering growth potential and subsequent employment.

- 6.8. Furthermore, there will be implications on the use of personal data following Brexit and given new measures taken by SMEs to comply with GDPR regulations, businesses may not understand the need for revised measures to ensure the integrity of information required after 1 January 2021.

## **7. Conclusions and Recommendations**

- 7.1. The all island economy has been good for Newry, Mourne and Down District Council in building and maintaining a cross border relationship. Many businesses have developed close working relations with southern companies at an individual and business level. It is important that these relationships continue to grow. A continuation of cross-border trade with limited disruption is therefore significant to the success and growth of Newry, Mourne and Down Council area business base.
- 7.2. Any restrictions on labour movements, both north and south and from Europe will reduce the free movement and adversely affect labour and skill availability. Access to labour may also be an issue post Brexit for potential Foreign Direct Investment projects.
- 7.3. Like many areas, businesses in Newry, Mourne and Down District Council are awaiting clarification of how the protocol will operate and the implications of a Deal or No Deal on how they trade cross border and with GB. The lack of clarity on guidelines and the mixed messaging coming from the negotiations has generated apathy among many SMEs, many of whom have not prepared nor are preparing. Furthermore, there is a danger that if a deal is done at the eleventh hour, businesses will be left to organise their affairs in a matter of weeks or days when the transition period was intended to be over a twelve months period.
- 7.4. Additionally, current support mechanisms must not end with the transition period but must be ongoing as businesses grasp the complexities of any new trading relationships.
- 7.5. Local businesses, particularly smaller businesses, identify with local Councils and Chambers which need to be properly resourced and supported to work with local businesses at a grass roots level.
- 7.6. The above issues point to the need for mitigating actions as border communities and businesses navigate through the changes. Other actions should include:
  - Accelerated investment in transport connectivity such as Southern Relief Road.
  - The rolling out of full fibre broadband/connectivity across the Corridor to ensure a much-improved digital connectivity for the entire Corridor to prevent any further falling behind.
  - Continuation of funding (Peace plus, Shared Prosperity Fund, City Deal etc) to support Business to adapt and develop post Brexit.
  - Continued promotion of 'Planning for Brexit' supports especially to smaller businesses with a lack of resource for this and for the longer-term trade diversification and skills enhancement needed in a post-Brexit economy (in

particular through expansion of FE, IoT and University provision throughout the Corridor).

- Supports to create greater scale and more cooperation and clustering in some of the most risk-exposed sectors, such as agri-food, traditional manufacturing and tourism.