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# New changes to trading arrangements for Irish exporters to the UK

By Thomas Conefrey

On 31 January 2024, the UK introduced customs and Sanitary and Phytosanitary (SPS) requirements on all imports into Britain from the EU including Ireland, as contained in its new Border Target Operating Model (BTOM).[1] The new arrangements arise as a result of the UK's exit from the European Union on 31 December 2020 and the subsequent implementation of the Trade and Cooperation Agreement (TCA) between the EU and UK. The controls introduced in January follows five previous deferments by the UK government and are the first phase of measures to be implemented this year, with further changes due in April and October 2024. The importance of the UK as a trading partner for Ireland has been in long-run decline since the 1970s and this reduction in trade exposure has continued since the 2016 referendum. At the same time, the UK remains Ireland's third largest trade partner for goods and second largest for services. The purpose of this *Box* is to outline the nature of new trade restrictions coming into force this year, explain the sectors of the Irish economy most likely to be negatively affected and discuss the broader potential macroeconomic implications of the EU-UK economic relationship following the implementation of Brexit.

[1] Sanitary and Phytosanitary (SPS) requirements refer to rules on food safety and animal and plant health standards designed to protect human, animal or plant life.

## New Restrictions on Exports from Ireland to the UK from January 2024

Starting on 31 January 2024, Irish traders exporting goods to Great Britain or via the UK landbridge to the rest of Europe must comply with new UK import rules.[2] The rules are in addition to the existing customs obligations that have applied to Irish businesses moving goods to, from or through Great Britain since 1 January 2021.[3] In summary, the rules applied in January introduce three new important requirements for Irish traders:

- Pre-notification requirements for live animals, animal products and high and medium risk category plant products;
- Full customs controls;
- Health certification on medium risk animal products, plants, plant products and high risk food and feed of non-animal origin.

Among the practical implications of the new arrangements, Irish exporters are required to ensure that their GB importer or GB-based agent has registered with the UK Customs Declarations System (CDS) and has made a customs declaration. The rules also require that certain products have an Export Health Certificate, including when using the GB landbridge.[4] The new rules are most onerous on food, animals and products of animal origin.

Further changes are envisaged in the UK's BTOM for later in 2024. In particular, from October, it provides for the introduction of documentary and risk-based identity and physical checks on medium risk animal products, plants, plant products and high risk food and feed of non-animal origin from the EU, including from the island of Ireland. Taken together, the changes imply an additional administrative burden, delays and associated cost for Irish firms exporting goods to Great Britain or transporting goods to Europe via the landbridge.[5]

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[2] The UK landbridge describes the route that connects Irish importers and exporters to the EU single market and wider international markets using the UK's road and port networks.

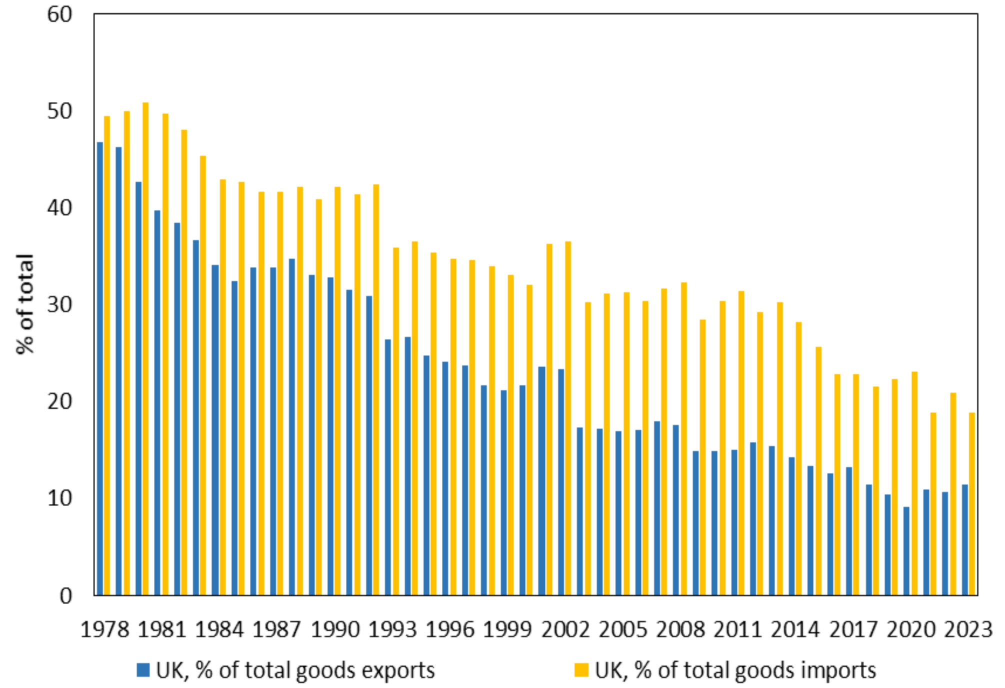
[3] Details on the new arrangements in place since January 2024, as well as further changes planned during 2024 are set out here.

[4] There has been a significant reduction in the use of the UK landbridge by Irish traders. Traffic on ROI-GB routes has declined by roughly 20 per cent since 2020, while traffic on ROI–EU routes has doubled. According to the Irish Maritime Development Office, the decline in the use of the UK landbridge has been the main reason for these changes. Although traffic on the landbridge has reduced, it continues to be used particularly for time-sensitive products. As of Q4 2023, ROI – GB traffic represents two thirds of all ROI Roll on/Roll off (RoRo) traffic.

[5] The new UK requirements do not apply to goods moving between Ireland and Northern Ireland.

## Trade exposure of Ireland to the UK has declined steadily over time but it remains an important market

**Figure 1: UK as a percentage of overall goods exports and imports in Ireland**




Source: CSO

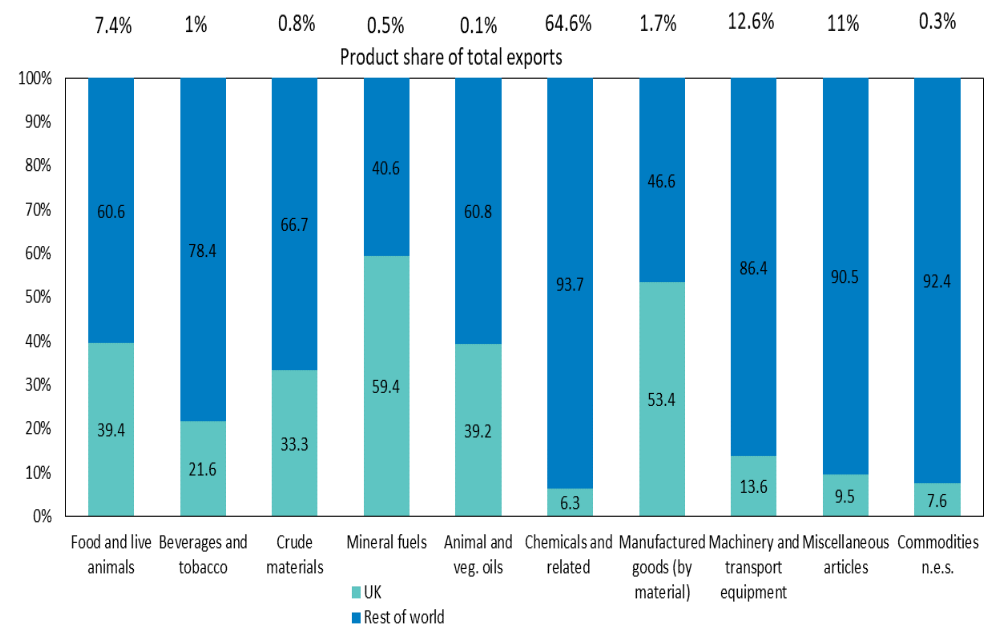
## What sectors and firms are most exposed to the new UK rules?

Taking aggregate goods exports and imports, the exposure of the Irish economy to the UK has declined steadily over time (Figure 1). In the late 1980s, the UK was the destination for almost half of Ireland's goods exports and a similar proportion of Ireland's imports were sourced in the UK. By 2023, the proportion of goods exports sold to the UK had declined to around 11 per cent. The proportion of imports sourced in the UK has also fallen but by less than the drop in exports – in 2023 the UK was still the source for around one-fifth of Irish imports, compared to over 50 per cent in the late 1970s.

The relative importance of the UK can be assessed by examining the proportion of exports sent to that market compared to the rest of the world. Looking at market share by commodity group (Figure 2), the exposure of the agri/food sector emerges clearly. The sector accounts for just over 7 per cent of total goods exports and of these, 40 per cent go to the UK. *Chemicals and related products* make up by far the largest component of overall goods exports in Ireland, accounting for just under two-thirds of the total. This product group has the lowest UK market share with less than 7 per cent of its exports going to that market (Figure 2). Other products such as *Mineral fuels* and *Manufactured goods (classified by material)* have a high UK market share of over 50 per cent, but these commodities account for a relatively small proportion of overall exports (0.5 per cent and 1.7 per cent respectively).

## Almost 40 per cent of food and live animal exports are sold to UK market

**Figure 2: Export market share by commodity group (2023)**




Source: CSO

Since larger firms tend to have a more diversified export base and are likely to be better equipped to adjust to the new customs and SPS rules being introduced on Ireland-UK trade, it is useful to examine how exports to the UK vary by firm size, where size is measured by number of employees in the firm. This is possible using data published by the CSO up to 2018. The vast majority of firms in Ireland exporting to the UK are SMEs, representing 97 per cent of the total. Micro enterprises (firms with fewer than 10 employees) alone make up over half the number of firms exporting to the UK (Figure 3). Despite accounting for the overwhelming majority of firms exporting to the UK, SMEs represent a smaller proportion of the overall value of Ireland's exports to the UK (54 per cent). Large firms which make up just 3 per cent of all firms exporting to the UK were the source of 44 per cent of the value of exports.

Focussing on the agri/food sector because of its significant exposure to the UK, SMEs account for 36 per cent of the exports of this sector with large firms making up the remainder (Figure 4). The *Wholesale and Retail sector* also has considerable exposure to the UK with 38 per cent of its exports going to that market. This sector is dominated by SMEs with these firms accounting for 78 per cent of the exports

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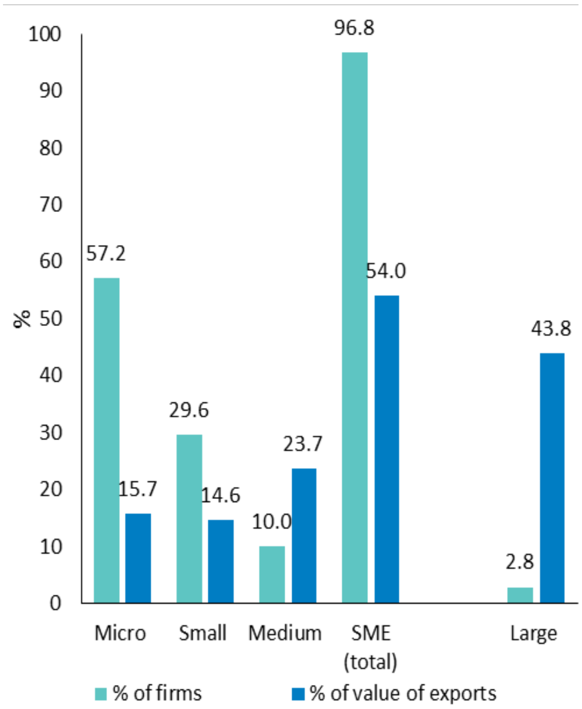
from the sector to the UK. Exports from the chemical and pharma sector to the UK (around one-third of total UK exports) are dominated by large firms accounting for over 90 percent of exports.

## SMEs account for 97 per cent of firms exporting to the UK

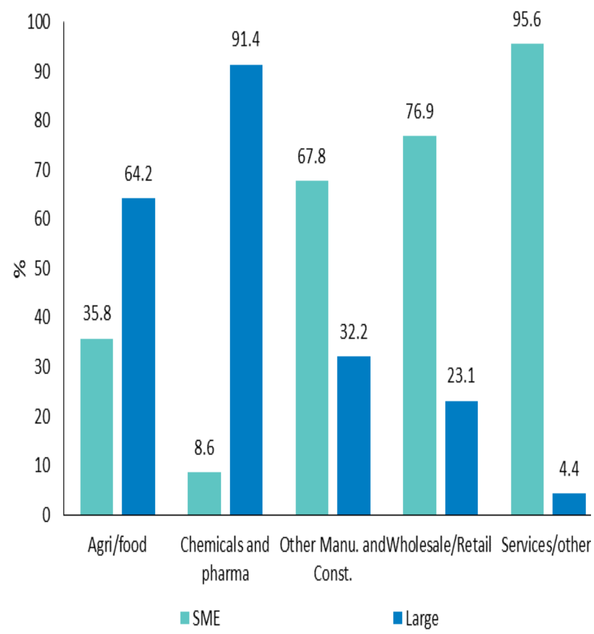
**Figure 3: Exports to UK by size of enterprise**




Source: CSO

## Large presence of SME exporters in wholesale/retail and agri/food sectors

**Figure 4: Exports to UK by size of enterprise and sector**




Source: CSO

## Implications of the new trading regime

The changes to EU-UK trading arrangements in 2024 introduce new complexity and cost for Irish firms exporting to the UK.  This is especially the case for the agri-food and wholesale and retail trade sectors where SMEs have a significant presence The ultimate impact of the changes across sectors will depend on the scale of the additional costs faced by particular firms and the extent to which these can be absorbed into profit margins or passed on the final consumer abroad.

A significant proportion of Ireland's trade with the UK is accounted for by the pharma sector (around one-third) which has grown rapidly over the last decade and produces high-value products. As a result, it is possible that overall exports to the UK could continue to grow even with a decline in agri-food exports. Nevertheless, a reduction in these exports is likely to negatively affect economic activity and employment in Ireland, in particular in regions outside the main urban areas where employment-intensive agri/food activity is concentrated.

More broadly, as the implications of the UK's exit from the EU and the effects of the implementation of the TCA unfold over time, the negative macroeconomic effects of the new arrangements will continue to materialise for the UK and the Irish economies. Although the TCA allowed for a continuation of tariff and quota-free trade between the EU and UK, it introduces new non-tariff barriers including more stringent customs checks, documentary compliance, rules of origin requirements and other barriers. This *Box* has focussed on the implications for Irish goods exports to the UK in the light of the changes being implemented this year, however, these non-tariff barriers present an impairment to EU-UK trade more widely, including their effects on imports and on services trade.

The ultimate long-term economic implications of these changes will take time to fully materialise. Some sectors are adjusting more quickly and the economic loss will be relatively contained but other parts of the economy will face greater challenges, as illustrated in this *Box*. As recent analysis has demonstrated, by reducing trade, investment and productivity, Brexit is estimated to have already lowered UK economic activity relative to what would have been expected if EU membership was maintained.  This drag on growth is likely to persist over the long term. The spillover from this expected weaker UK economic performance to Ireland and the EU, as well as the direct effect of the new trade restrictions on Ireland-UK trade, will negatively affect economic activity in Ireland over the coming years. Through these channels, previous analysis for Ireland (Conefrey and Walsh, 2020) estimated that a Free Trade Agreement (FTA) – similar to the EU-UK TCA – would reduce Irish output by around 3.5 per cent after 10 years.