Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Box C: QB 4 – October 2019

This Box content is extracted from the Quarterly Bulletin – Q4 2019

Short-term disruption to trade infrastructure in a no-deal Brexit

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Much of the economic analysis conducted on the impacts of Brexit on the Irish economy has assessed the deviation from baseline GDP growth under various forms of the future trading relationship, i.e. a Free trade agreement; Customs Union, etc. In each of these scenarios, the status quo applies during a transition period lasting for one to two years[2]. This transition period means that firms, households and administrators are able to prepare for the move to a new trading arrangement between Ireland and the UK.

In a no-deal/disorderly Brexit however, a transition period would not apply. This means there is not only the substantial impact of tariffs and non-tariff barriers, but substantial adjustment costs incurred as firms and administrative bodies in Ireland, the UK and other European countries would be required to implement all of the infrastructure, both administrative and physical, for trading with a third country in a very short period of time. This box analyses two of primary channels through which short term disruption may arise, logistical delays and the imposition of sanitary and phyto-sanitary checks.

These effects mean that, in the case of no deal, the impact of Brexit on the forecasts is more severe in the short-term. This is primarily through their effect on trade, but also on domestic demand since a significant proportion of firms make use of intermediate inputs imported either from or through the United Kingdom.[3] Assessing the magnitude of this impact on output is difficult however. No country has ever left a free trade agreement with the level of integration that the UK has with EU member states. As such, we have used a significant element of judgement arising from economic theory and the best estimates available in the literature.

[1] Economist, Irish Economic Analysis Division
[2] The Bank has published a series of Quarterly Bulletin Boxes, for example (Conefrey, O'Reilly and Walsh, 2019). See also analysis by the Department of Finance and ESRI.
[3] See Martina Lawless (2018) "Intermediate Goods Inputs And The UK Content Of Irish Goods Exports". ESRI Working Papers

Logistics

A disorderly Brexit would mean that ports and logistics operators in Ireland, the United Kingdom and on the European continent would need to adapt to a substantial number of new regulations in a short space of time. In the long run, evidence suggests that these increases in delays and administrative burdens would reduce UK-Ireland trade by 9.6 per cent.[4]

In the short run, however, the process of adapting to new regulations and implementing a new tariff regime will result in delays at ports/airports compared with the status quo. Furthermore, there would likely need to be upgrades to port infrastructure to allow any delayed consignments to be stored, for traffic management, as well as to allow trucks to comply with tachograph rules, etc.[5]

As well as delays to Irish imports and exports to and from the UK, there may also be delays to Irish consignments travelling through the UK to the European market. While Irish trucks will still be able to transit through the UK using the 1975 TIR convention,[6] they will still be affected by any delays at UK ports. Furthermore, transiting under the TIR convention requires obtaining and paying for a permit[7] and will also require further administrative and learning costs, which are likely to be most acute in the months immediately following a disorderly Brexit.

Evidence suggests that Irish and UK firms engaged in significant stockpiling in advance of the 31 March 2019 deadline in order to mitigate the impact of the first months of adjustment in the event of a no-deal.[8] An aggravating factor with regard to the October deadline is that it comes at a time in the year when warehouses are typically at peak capacity, meaning that stockpiling is more difficult and more costly.

These factors will hinder trade, potentially significantly, in the very short run, adding to the increase in input costs for Irish firms already incurred from tariffs and non-tariff barriers in late 2019 and early 2020.

Sanitary and Phyto-sanitary (SPS) Checks

At present, animal, plant and non-animal food imports are subject to no checks at ports when arriving from the UK. When the UK becomes a third country, authorities at Ireland's ports will be required to implement EU SPS checks. The degree of checking required differs significantly for different goods and for different source destinations. For example, imports of food of animal origin from third

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[4] Byrne, S., & Rice, J. (2018). Non-tariff barriers and goods trade: a Brexit impact analysis (No. 6/RT/18). Central Bank of Ireland.
[5] Seanad Committee on the Withdrawal of the United Kingdom from the European Union. Submission of the Freight Transport Association. 25th September 2019
[6] https://ec.europa.eu/taxation_customs/business/customs-procedures/what-is-customs-transit/tir-transports-internationaux-routiers-international-road-transport_en
[7] Currently TIR permits cost between $40 and $220 depending on the issuing country and other factors. See Morgenroth (2018)
[8] Bank of England (May 2019) Inflation Report

countries are prohibited unless a number of regulations and certifications are acquired by both the third country and the exporting firm.[9] In a no-deal, it is assumed that the UK will acquire the relevant certifications almost immediately, but there will likely be significant heterogeneity in the speed at which UK firms become compliant.

Importation of goods subject to SPS requirements may only occur through a designated first point of entry, currently Dublin port and Dublin airport. Each consignment undergoes documentary and identity checks, as well as physical checks at an "appropriate frequency". The frequency of physical checks is reduced on frequently traded items (more than 200 consignments per annum) according to a risk index maintained by the European Commission.[10]

Implementing these checks will require an increase in physical infrastructure at Ireland's ports (storage facilities, laboratory equipment for physical testing). Adapting to this new system in a short period of time in a no-deal scenario will be problematic, and will likely result in further delays to trade significantly above what would be the case under a transition agreement scenario.

Mitigating factors

While the unprecedented and uncertain nature of a disorderly Brexit make it difficult to plan for, certain contingency measures have already been put in place that will mitigate the short run impact. The Government announced in 2018 that it would hire extra customs officials including additional staff to carry out checks on agricultural products.[11]

Revenue have also published figures which shows that 96 per cent of merchandise export trade with the UK in 2018 was carried out by firms which now have an "Economic Operators Registration and Identification" (EORI) number, which is required by revenue for firms trading with a third country.[12] While having an EORI number does not reduce the impact of the factors discussed above, it implies that the majority of Irish firms who currently trade with the UK are aware of their requirements in the event of a no-deal.

[9] See European Commission: Notice To Stakeholders Withdrawal Of The United Kingdom And EU Food Law And EU Rules On Quality Schemes
[10] https://ec.europa.eu/food/plant/plant_health_biosecurity/non_eu_trade/less_frequent_checks_en
[11] Parliamentary Question, 18th December 2018
[12] Revenue press statement on Brexit engagement