Brexit and Supply Chain Disruption in the Import Channel

Summary of the 23 October Roundtable Event

On Monday 23 October, the Central Bank hosted a Roundtable discussion on the topic of “Brexit and Supply Chains in the Import Channel”. The event was organised as part of a series of Roundtables that the Central Bank hosts each year to engage with external experts and commentators. The Central Bank uses these Roundtables to listen to a wide range of views and to gather information. This Roundtable was focused on the implications of disruptions to the supply chains of Irish retailers resulting from the United Kingdom’s decision to leave the European Union. The Governor chaired the discussion with a mix of attendees from both inside and outside the Central Bank.

Under its price stability mandate, the Central Bank needs to have an in-depth understanding of the forces driving inflation, both domestically and at the Euro area level. To the extent that Brexit-related supply chain disruption could affect import price levels or volumes, there may be knock-on effects for the prices producers and consumers have to pay. Due to their large share in consumer basket, the discussion at this roundtable focused on supply chain disruptions in the grocery and clothing sector. This note summarises the discussion that took place under four main headings: (1) Customs procedures; (2) Tariff and non-tariff barriers; (3) The Grocery and textiles market; and (4) Logistics. An accompanying set of slides from Jonathan Rice and Stephen Byrne (both Central Bank of Ireland) provides some further context.

1. Customs Procedures

Under the status quo, goods from a “third country” (the UK’s status should it leave the Customs Union) are subject to additional controls including physical inspections (mainly agriculture and food) and documentary checks. These checks can increase delays at customs posts and delays increase costs for retailers. Delays could also force retailers to hold additional inventory in Ireland.

Certain types of good are more prone to lengthy customs inspections than other types, and this is largely dependent on their country of origin. In light of this, the discussion centred on the characteristics of goods currently imported from the UK, including; good type, country of origin, import consignment volumes and quantities of consignments. Agri-food imports are prone to more significant border delays given that a higher proportion of these goods come from countries that require Irish authorities to conduct more rigorous customs inspections.

Another issue relates to the number of consignments. Irish imports from the UK tend to be shipped in smaller consignments, compared to imports from other countries. As inspections are carried out on an individual consignment basis, the total value or volume of current imports from the UK may be a misleading indicator on which to estimate increases in inspection times.

2. Tariff and Non-Tariff Barriers

Under a World Trade Organisation (WTO) tariff scenario, agri-food and clothing imports have higher tariff duties than all other types of imports. Furthermore, based on forthcoming research
by the Central Bank, time-sensitive goods, such as food products, are more sensitive to border waiting times. The discussion focused on potential effects at the intensive (the volume of a given product imported) and extensive margin (e.g. a fall in the number products available).

3. The Grocery and Textiles Market

There was discussion on the degree to which retailers had capacity to absorb supply chain cost increases rather than passing these costs on to the Irish consumer. It was suggested that competitive pressures may deter retailers from raising prices. Within a sector, exposure to UK imports varies by retailer. For example, retailers with UK-centralised distribution are more exposed. Finally, there was discussion on the welfare implications of individual goods being replaced or removed from supermarket shelves due to specific supply chain disruptions.

4. Logistics

The UK is an important landbridge for goods transiting to Ireland from continental Europe (and further afield). There was a discussion as to whether or not this arrangement will continue, and possible alternatives should it not. Should the UK leave the Customs Union it will be possible for firms importing into Ireland to transit goods through the UK by road, without incurring any tariff duties on entry to the UK. The least disruptive outcome is that the UK is a member of the Common Transit Convention, which is effectively the same as the current regime. However, the final agreement is unknown, and should the UK fall back on the “Transports Internationaux Routiers” (TIR) treaty, set up by the United Nations Economic Commission for Europe, then disruptions could be more extensive.

Also discussed were the potential capacity constraints that could limit the ability to absorb increases in physical traffic through designated entry ports. Designated entry ports are specific entry points for non-EU imports. At present Dublin airport and Dublin seaport are the only two legal designated ports of entry for non-EU goods. It was noted that any increase in documentary or physical checks arising from Brexit would require additional capacity, both in terms of physical space, and skilled labour, at designated entry ports. However, the extent of additional capacity requirements remains uncertain in light of unfolding Brexit negotiations, including uncertainty around the presence of a hard land border between Northern Ireland and the Republic of Ireland.

Powerpoint slides from the event are available [here](#).

1 More details [here](#)