

## About Retail Ireland

Retail Ireland is the leading public affairs, government relations and trade representation body for the Irish retail industry. We represent a broad mix of the very best in Irish retail from global multiples to indigenous Irish chains to smaller, independent and stand-alone operators and are proud to be the voice of Irish retailers.

Retail Ireland operates as a dedicated unit within Ibec, Ireland's foremost business, enterprise and employers group. Ibec and its sector associations, work with government and policy makers both nationally and internationally, to shape business conditions and drive economic growth.

We also provide a wide range of professional services direct to members.

Visit [www.retailireland.ie](http://www.retailireland.ie) and [www.ibec.ie](http://www.ibec.ie) for more information.



Retail Ireland

84/86 Lower Baggot Street

Dublin 2

[www.retailireland.ie](http://www.retailireland.ie)

Tel: 01 6051500

## Introduction

Retail, Ireland's largest private sector employer, faces significant challenges arising from the decision of the UK to leave the European Union. The close links between the Irish and UK economies, and a wide preponderance of shared high street retail brands, gives rise to a significant exposure for the Irish retail trade to the downside risk of Brexit. In fact, the Government's own report into the potential impact of Brexit entitled *'Ireland and the impacts of Brexit'* completed by Copenhagen Economics, calls out the Retail and Wholesale sector as one of the top five most impacted sectors by Britain's exit from the EU. This is largely as a result of the reliance of the sector on the UK as a source of goods imports.

The Irish retail sector is growing relatively strongly and the persistent gap between sales value and sales volumes has begun to close in recent months. Nevertheless, with Brexit on the horizon Irish consumer sentiment has begun to weaken in the second half of the year. Combined with sharp increases in energy and housing costs, this could significantly impact consumer confidence and slow down consumer spending as we enter the sector's most important trading period.

Furthermore, the dramatic shift in exchange rates since the UK referendum in May 2016 and its resulting impact on the sector's relative competitive position has meant that Brexit is not just a future concern for the sector but is a reality today for Irish retailers. As Brexit negotiations draw to a close it is essential that the EU and UK agree a Withdrawal Agreement that minimises trade barriers

for consumer goods manufactured in the UK or imported through the UK and destined for Irish retailers. Depending on the outcome of these negotiations, research has found that there is a very real possibility that consumer choice and consumer prices will be impacted by new trading patterns and rules. We must, therefore, do all in our power to ensure Irish consumer interests are prioritised during the Brexit process.

## Main challenges posed by Brexit for retail:

1. **Confidence** - Sterling devaluation, cross border trade, emergence of online
2. **Supply Chain** – Tariffs, customs delays, consumer choice
3. **People** – Free movement of colleagues North/South & East/West
4. **Regulation** – Product safety, labelling requirements, safety standards

## Confidence:

Brexit is already a reality for the retail sector, and retailers and consumers have been dealing with the fallout from the UK referendum result since June 2016. In October 2018 sterling was 17.5% weaker than it was in January 16. This fall in the value of sterling led immediately to increased competition in the Irish retail market from British based online retailers, and once again raised the spectre of a return to increased levels of cross-border trade, due to an overnight 20% improvement in UK based retailers' relative competitive position.

Similar exchange rates challenges were experienced in 2010; however, the Irish retail landscape has changed considerably since then. In the first instance, margins in the retail industry have contracted since 2010, with intense price competition being a dominant feature of the market. Sales volumes are recovering at twice the rate of sales values. In addition, the potential to reduce costs in the industry is constrained with most retailers struggling with rising input costs from growing wage expectations, increasing rents and insurance costs.

Given continued fluctuations in the value of sterling, consumers will rightly expect a reduction in consumer prices. However, this is likely to be reversed in the event of a 'hard' or 'no deal' Brexit. According to the ESRI, such a scenario would lead to an increase in the cost of living for all households in Ireland by 2% to 3.1%, an annual increase of €892 to €1,360 per household.<sup>1</sup> This would weigh disproportionately on lower income households, with this section of consumers facing the largest increase in living costs. Retailers are already working hard to explore alternative sourcing options in order to minimise any increase in prices for consumers, but some price impact will be inevitable.

Despite the strong recovery in the economy and an unemployment rate of 5.1%, Irish consumers remain sensitive to uncertainty in the global economic outlook. Continuing discussion around a potential Brexit related slowdown in the Irish economy is already affecting discretionary spend amongst Irish consumers. The savings rate increased to 8.6% in 2017, up from 6.8% in 2016. Consumers are scared after recent years of recession and are significantly more susceptible to macro-economic shocks.

As worries persist about the domestic and international economies, this nervousness may lead consumers to restrict future household spending, which would present a real challenge to retailers and the continuing recovery in the sector.

The modern challenge for Irish retailers presents itself in the wholesale move by Irish consumers into the online shopping world. Internet penetration in Ireland is rising with 82% of individuals using the internet in the past 12 months and 53% of these individuals making purchases online in the past 12 months.<sup>2</sup> Today's consumers are far more price conscious than they were 10 years ago and no longer need to travel to access the UK high street.

A further fall in the value of sterling may lead to an increase in online shopping with UK-based websites, which in turn will take key consumer demand out of our towns and cost jobs across the country.

<sup>1</sup> ESRI, Brexit and Irish consumers, accessed 8 October 2018 <[www.esri.ie](http://www.esri.ie)>

<sup>2</sup> Eurostat, *E-commerce statistics for individuals*, accessed 3 July 2018 <<http://www.ec.europa.eu/eurostat>>

We must also consider the potential for a return of significant cross border shopping and the resulting impacts on retailers and the exchequer. Our loss of competitiveness against counterparts in Northern Ireland does not just come from exchange rate fluctuations.

The recent increase in the National Minimum Wage in Budget 2019, a cumulative increase of over 13% since January 2016, has increased the disparity in employment costs between retailers in the Republic and those in Northern Ireland, where the minimum wage is now 13.5% lower.

## Sourcing

In the case of the grocery sector, two thirds or more of what is on our shelves is either manufactured in the UK or imported through the UK.<sup>3</sup> Should Britain exit the Customs Union, this will give rise to the possibility of the introduction of tariffs on a range of products, which Ireland relies on the UK to provide. Under a worst-case scenario WTO rules will apply.

Under this regime tariff levels range from 10% on certain food products to over 73% on clothing goods. This would inevitably have a very real impact upon consumer prices and potentially on consumer choice, should it become uneconomic to source certain products from the UK in future.

Outside of the potential for significant product cost increases, retailers will face additional logistical difficulties in terms of product movement. Stock flows between Ireland and the UK fill our ports every day. The imposition of new customs checks on these products will likely have serious ramifications for the efficiency of the supply chain. Any slowing of the processing of these products at ports, on either side of the Irish Sea, could have potentially serious cost implications and for some products could lead to spoilage. Such products would also be susceptible to non-tariff barriers, which may now become a potential block to UK sourcing.

## People

Retail is an all island industry with many retailers operating their store networks on such a basis. Furthermore, very many high street retail chains are British companies or are headquartered in Britain and operate in Ireland on an all island basis.

Currently retail employees move freely between stores in the Republic of Ireland and Northern Ireland, often living on one side of the border and working in the other.

<sup>3</sup> IIEA, IIEA Brexit Sectoral Report Series, Brexit and the Distribution Sector, accessed 8 October 2018 <[www.iiea.com](http://www.iiea.com)>

The potential for a return to a physical border, or at a minimum the return of regular customs checks around the border, will mean retail employees will potentially face significant inconvenience on their daily journey. Such impositions are likely to give rise to longer journey times and act as a disincentive to free movement across the border.

We must also consider the East/West dimension of people movement. Daily, retail employees at all levels within organisations make the journey between the UK and Ireland to complete training, meet colleagues, receive operational briefings and other such activities. When Britain leaves the EU such free movement of staff will be further complicated by passport checks and other border related issues adding time to travel and further disrupting the seamless operation of retail businesses between the two islands.

## Regulation

We must also consider the potential for regulatory divergence between the UK and Irish markets in the longer term. The retail sector is subject to a wide range of EU Regulation. While the UK has agreed to transpose EU laws in this area into British law post Brexit, the inevitable divergence in regulatory requirements over time would present significant challenges across the sector as well as giving rise to confusion to consumers who have become accustomed to similar labelling and standards across the two jurisdictions.

The shared language between the UK and Ireland has meant Irish retailers have enjoyed the economies of scale arising from common labelling with the UK. Should regulations diverge post Brexit, it may become uneconomic for certain suppliers and manufacturers to provide products with 'Irish specific labels' for the market, given the relatively small number of consumers to be served. This will limit consumer choice into the future and potentially frustrate Irish consumers search for certain product lines.

The traditional all island retail operating model will also be called into question, as supplying stores on both sides of the border with the same products as is currently the practice, will no longer be possible.

Such a lack of regulatory harmonisation between North and South and between the UK and Ireland will bring further regulatory costs as well, as retailers try to ensure products are available for sale in both markets.

Under the current system operated by the European Commission, Member States are easily able to exchange information, identify hazards and react in a coordinated manner to a product alert. In order to maintain the high standards and sustainability of our supply chain post Brexit, it is essential that communication and the coordination of these activities is upheld.

Therefore, ensuring consistency with key elements of EU regulation in a post-Brexit environment should be a priority.

## Measures to address the negative impacts of Brexit

- ◆ The Government must ensure a strong focus on cost competition in areas such as labour, minimum wage, energy and insurance costs.
- ◆ Existing and planned policy decisions must protect competition and not impose new costs on retailers or consumers; this includes regulatory costs.
- ◆ Small and medium sized Irish retailers should be helped to capture the online spend of Irish customers through supports for e-commerce.
- ◆ Investment in transport projects and the modernisation of our revenue and customs systems must be made to allow for the seamless introduction of new EU custom controls.
- ◆ The Government must ensure that the Rural Regeneration and Development Fund is utilised effectively.
- ◆ The ubiquitous presence of black-market products such as illicit alcohol and tobacco products and counterfeit goods should continue to be a focus of government.
- ◆ Retail Ireland welcomes the introduction of a Future Growth Loan Scheme announced as part of Budget 2019 and encourages government to do more to raise awareness of this scheme amongst businesses who could benefit greatly from funding.



**84/86 Lower Baggot St**  
**Dublin 2**  
**[www.retailireland.ie](http://www.retailireland.ie)**  
**Tel: 01 6051500**

**Dublin (Head Office)**

84/86 Lower Baggot Street

Dublin 2

T: + 353 1 605 1500

E: [membership@ibec.ie](mailto:membership@ibec.ie)

**Galway**

Ross House

Victoria Place

Galway

T: + 353 91 561 109

**Cork**

Knockrea House

Douglas Road

Cork

T: + 353 21 429 5511

**Brussels**

Avenue de Cortenbergh

89, Box 2

B-1000 Brussels

Belgium

T: + 32 (0)2 512 33 33

F: + 32 (0)2 512 13 53

**Limerick**

Gardner House Bank Place

Charlotte Quay Limerick

T: + 353 61 410 411

E: [midwest@ibec.ie](mailto:midwest@ibec.ie)

**Donegal**

3rd Floor, Pier One Quay  
Street

Donegal Town Donegal

T: + 353 74 972 2474

E: [northwest@ibec.ie](mailto:northwest@ibec.ie)