European Affairs Committee

Protocol on Ireland/Northern Ireland Sub-Committee

Corrected oral evidence: Follow-up inquiry on impact of the protocol on Ireland/Northern Ireland

Wednesday 23 March 2022

4 pm

Watch the meeting

Members present: Lord Jay of Ewelme (The Chair); Lord Dodds of Duncairn; Lord Empey; Lord Godson; Baroness Goudie; Lord Hain; Lord Hannan of Kingsclere; Baroness O'Loan; Baroness Ritchie of Downpatrick; Lord Thomas of Gresford.

Evidence Session No. 2 Heard in Public Questions 10 - 21

Witnesses

I: Dr Esmond Birnie, Senior Economist, Ulster University; Stephen Kelly, CEO, Manufacturing NI; Owen Reidy, Assistant General-Secretary, Irish Congress of Trade Union Northern Ireland.

Examination of witnesses

Dr Esmond Birnie, Stephen Kelly and Owen Reidy.

Q10 **The Chair:** Good afternoon and welcome to this public meeting of the sub-committee on the protocol on Ireland/Northern Ireland. We are holding the second evidence session today of our follow-up inquiry into the impact of the protocol on Ireland and Northern Ireland. This inquiry is a follow-up to the committee's introductory report, which we published last July, and the committee's examination of individual aspects of the protocol's operation in the period since then. After today's evidence session, the inquiry will be paused for the duration of the Northern Ireland Assembly election campaign and will resume after the elections on 5 May.

We are joined today in virtual format by a panel of economists and business and trade union representatives. You are all extremely welcome. Esmond Birnie and Stephen Kelly, welcome back to the committee. Owen

Reidy, welcome. I well remember meeting you in Belfast in another capacity a little while ago. All three of you are extremely welcomed by members of the committee, and we much look forward to the evidence you will give us.

Could you introduce yourselves formally and briefly the first time you speak? We know who you are, at least around this table, but the audience may not. I should stress also that today's meeting is being broadcast and a verbatim transcript will be taken for subsequent publication, which shall be sent to you to check for accuracy. I should also refer to the Register of Members' Financial Interests, as published on the committee's website.

We will aim to finish this session at about 5.30 pm, if we can. That gives us an hour and a half or so, which I hope will see us through. There are some extremely important questions to be asked. We are not expecting a Division this afternoon, so that should not interrupt our business.

Q11 **Lord Hannan of Kingsclere:** Welcome to our three guests. Perhaps I could begin by asking you a general question. How would you assess the economic impact of the protocol to the extent that it can be disentangled from wars in Ukraine, inflationary problems, lockdown-related problems and so on?

There is a slight gloss, because it is nice to see both Stephen and Esmond again; it is always very flattering when people choose to come back. You have both already answered this question in different ways. Esmond, I remember that you put some very specific figures on it, extrapolating from the price per pallet and so on. Esmond and Stephen, perhaps you could focus on anything that has changed since you last appeared before this committee in the light of new data. While you are thinking of that, perhaps I could give the floor first to Owen for a general picture.

Owen Reidy: I am from the Irish Congress of Trade Unions. We are an all-Ireland trade union federation. We are the sister organisation of the TUC on the island of Britain. Despite Brexit, we continue to have excellent relationships with our good friends in the TUC. We represent about 800,000 workers across the island of Ireland, including 200,000 workers in Northern Ireland, organised through a range of unions that have their headquarters in Britain, Northern Ireland and the Republic of Ireland. We are very much cross-community, and we are delighted to be here.

In answer to your question, in many cases it is very hard to distinguish, because we are dealing with three fundamental shocks as well as Brexit, with Covid and the cost of living crisis, with that now exacerbated by the war in Ukraine. They are all supply-side shocks, and they have consequences. I think it is possible to talk at a firm level about the impact of Brexit and indeed the protocol, which is an outworking of Brexit, but it is very difficult for me to answer on a general level because of all those issues. I can only base it on the feedback that I get from the trade unions that I engage with on a day-to-day basis.

Quite frankly, rarely do they raise the protocol as an interference in their world of work, and our sense is that the Northern Ireland economy is struggling because we have a disproportionately high number of people on low pay. It is a peripheral region of the UK, it is one of the poorer-performing regions of the UK, and precarious work is still rife. That is the background to all of this. We had those challenges before Brexit and the protocol, and we still have those challenges now.

So it is very hard for us to discern, based on the feedback that we get from unions and our members, any specific negative economic consequence of the protocol. Nor can I say to you that I see obvious major positive economic impacts from a worker point of view, because we are still dealing with the same poor and modest employment rights legislation, which is devolved. We still do not have the rights that we would like when it comes to collective bargaining and engagement with the state. There is very little social partnership and very little social dialogue. In summary, I would say it is negligible.

Lord Hannan of Kingsclere: Thank you very much. Esmond, why not give you the next bat? You have written a lot about this and you have quantified it in some ways. Does it look any different now from when you were last talking to us?

Dr Esmond Birnie: I will come to the difference point at the end, because in a sense you have asked the questions at various points there.

First of all, distinguishing the overall Brexit impact from the impact of the protocol is obviously immensely difficult, but the logical/empirical argument that I would make—it is an important one, and we will probably keep coming back to it, I am afraid—is that, in the protocol, Northern Ireland has chosen, or you could say has had imposed upon it a variant of Brexit, that is peculiarly damaging.

What is the logic or the empirical basis for that? The basis is the cost implications for the greater trade flows, the east-west trade flows, Great Britain to Northern Ireland, and any consequential impact going in the opposite direction. That trade flow being much larger than the Northern Ireland to Republic of Ireland trade flow, if there is a cost impact from the protocol, which there is—we will come to that in a moment—it seems to me very likely that although all the available Brexit scenarios may well have led to Northern Ireland's GDP over the long run being less than it would have been, we have one here that is more damaging.

You also asked at one point about distinguishing, if possible, between the protocol's impact and the impact of, say, the Covid recession in 2020 and the so-called cost of living and energy price shock that we are experiencing at the moment. The previous speaker dealt with this as well. Again, it is very difficult. I have been quite open in trying to quantify the damage done by the protocol, but, at the same time, it is quite clear from the data that the 2020 Covid recession was more substantial, because, after all, Northern Ireland's GDP declined by 10%, which is close to a record. So I think we can say that the Covid-related effect was larger. Similarly, the energy shock and food price shock that we are experiencing at the moment was bigger.

There is an important thing to add here. We should not then take away the implication that the protocol does not matter. Covid was obviously a force of nature, as it were, and the global food and energy shocks were global-level forces, but the protocol is a policy choice. Admittedly it is between two sets of Governments, the UK and the European Union, but in principle it can be redesigned. Conceding that it is probable that the cost of the protocol is much less than Covid or the current energy and food price difficulties is in no way to say that this is an unimportant matter and should therefore be sidelined.

Finally, to get to your point about what has perhaps changed in the data and so forth, one issue that has been brought to my attention by somebody with expert knowledge in the logistics sector is the impact of the protocol conceivably on retail food prices in Northern Ireland in the long run. I base this on two facts. First, we know that retail food prices in the Republic of Ireland are considerably higher than in Northern Ireland or indeed in the UK generally. The most recent official statistics from Eurostat, the EU's statistical body, suggest that they are 34% higher in the Republic of Ireland than the UK average. Admittedly we do not have a good breakdown in the UK, but let us assume that Northern Ireland's price levels are broadly comparable to the UK average. Food prices are roughly a third higher in the Irish Republic.

It is sometimes argued that the impact of the protocol will be that businesses will shift their supply chains towards the Republic of Ireland and continental Europe, and we are seeing some evidence of that already. But I would therefore want to stress the possibility that supply chains, particularly for food retail in the Republic of Ireland, may be more costly, partly because of the smaller level of economies of scale. They are dealing with a smaller market. The Republic of Ireland's population is 5 million. Even if you add the 2 million in Northern Ireland, that is 7 million. Compare that to the UK's population of roughly 68 million. The transport distance from Northern Ireland through the Republic of Ireland to continental Europe is also longer than the distance from Northern Ireland to Great Britain.

If you put those two things together—the higher retail food prices in the Republic of Ireland and the conceivable cost-efficiency and economy of scale differences in the two sets of supply chains—there could be a negative impact in the long run on consumers. Again, we would see it in the cost of living.

I have made some attempts to quantify this, but inevitably they have to be very rough. Under certain scenarios, it could be anywhere from £50 million extra of spending on Northern Ireland's grocery bill, which in total is approximately £2.5 billion per annum, all the way through to £200 million per annum, which is an increase of around 8% or 9%. As I have said before to this committee, and indeed other committees, I have found evidence in the media for five sets of businesses implying that the cost of moving freight from Great Britain to Northern Ireland has increased by 6%. We know that roughly £250 million of UK public expenditure is being devoted either to implementing the protocol every year or trying to mitigate the impact on businesses. If that spending were reduced, the private-sector costs would increase considerably.

Taking all that together, the economic cost or economic impact is considerable. Other economists, such as from the Fraser of Allander Institute in Scotland, suggest that in the long run it will be somewhere between 2% and 3% of Northern Ireland’s GDP. There are considerable costs, but, as I said to you, I accept that Covid was a bigger shock. I accept the energy price at the global level was a bigger shock. We can do much less about those things. We can conceivably, through policymakers, do something about the protocol.

Lord Hannan of Kingsclere: That is very interesting, coming as it does on top of the significant rise in food prices even before the Ukrainian war. That is not something I have heard described before. It is very significant. I hope it will be further explored. It is always nice to see you, Stephen. What is your take, please?

Stephen Kelly: Good afternoon, Lord Hannan and others. We have been surveying the manufacturing community in Northern Ireland throughout 2021, as has the NI Chamber. Consistently, our results and their results are pretty similar; there is very little difference between them. So it is probably reasonable to say that the feedback that we get through the surveying is pretty consistent with the economy as a whole in Northern Ireland.

The most recent survey concluded in January. We asked them for their experience of the entire 2021 year, the first year of operation of the protocol. The protocol ranked fourth out of four issues that were most exercising manufacturing businesses. In fact, it was the availability of labour, not the protocol itself, that was the biggest challenge. In fact, two-thirds of businesses suggested that was their number one issue, while only 14% of manufacturers said that the protocol was their biggest challenge.

We found that less than one in four were continuing to struggle with the processes in the Irish Sea. That was down from 40% six months previously. Just over half had reported some negative impact of the protocol in 2021. Again, this was down from 77%, so three out of four, earlier in 2021. One in six were beginning to report a positive impact from the new trading arrangements for Northern Ireland. The single biggest challenge remained the readiness and willingness of GB suppliers. One in five continued to reported throughout 2021 that a GB supplier was unwilling to send goods to Northern Ireland, and that was consistent throughout the year. However, the readiness figure remained slightly down but pretty much the same. GB readiness continues to be the biggest problem that our manufacturers were facing throughout the year.

Most were reporting that, after initial disruption, their EU supply chains had recovered, but there was still more work to be done both to educate and to inform EU traders, both suppliers and buyers, of Northern Ireland status. GB sales appeared to be on a par with 2019, which obviously was pre Covid and pre Brexit/pre protocol. Around one in five reported a negative impact, but one in five had reported a positive impact, so there was pretty much a balance there. Some 28% said that they had reported an increase in sales with the European Union. That is reflected in some of the statistics from Eurostat and the Irish Central Statistics Office. A third believed that the disruption we faced in 2021 was likely to persist. This was down by around a quarter from July 2021. So the challenges remain for many of those businesses.

There was a huge uptick in the number of firms that were accepting that the protocol was the law and they needed to make it work. That was now up to two-thirds. That was the most popular option in all the feedback we received from the manufacturing community: the protocol is there, but they want it to work better. Consistently, throughout 2021, about 40% or 45% were looking for the UK Government and the Northern Ireland Executive to capture the benefits of the protocol, particularly for those in distribution and manufacturing. Consistently, again, one in five just wished for the protocol to be replaced in whole. So there is a mixed picture there.

To answer your question about disruption and the economic impact that is specifically protocol-related, as Owen says a lot of that is emerging at a firm level. I speak with the chief executives of the banks. They are beginning to see full-year 2021 figures being returned now by their customers, and they are reporting incredibly healthy returns.

As a final comment—this is a comment on Esmond's point—if you look at competitiveness in businesses for Northern Ireland as a whole, it is almost like looking at an old-style television screen where you have thousands of little red, green and blue dots. Each one of those dots is equally important as any of the others, and it is not until you see all of those dots added together that you get a full and clear picture of what we are experiencing. Fractions of fractions make a big difference to firms' competitiveness. It is why we have been campaigning for years on energy prices specifically around businesses in Northern Ireland: because those little bits make a big difference when you get to the fuller picture.

Lord Hannan of Kingsclere: Thank you very much indeed for three very comprehensive answers.

The Chair: Thank you. That is a very good start for us.

Q12 **Baroness O'Loan:** Welcome to this meeting. I would like to ask you about the evidence base for your assessments. You have already discussed that in some detail. I would like particularly to thank Mr Kelly for making available the statistics in the form that we have them now in your surveys.

We are looking at the economic analysis that you have undertaken. Esmond, you have just told us that you think that the effect could be £50 million on the Northern Ireland grocery bill, or £200 million generally. I would like you, if you could, to unpack that for me, please.

Stephen and Owen, what is the evidence base for your assessments? You have told us about the experiences of businesses and workers, but is there anything more that you can add? Particularly in the case of Mr Kelly, has there been any change in the three months since you gathered those statistics?

Finally, is it more appropriate to make an economic comparison with pre-Brexit arrangements or with the post-Brexit experience of the rest of the UK? Can we start with the evidence base, perhaps with Esmond?

Dr Esmond Birnie: Some of the points came up in the previous answer as well, of course. I would point to four levels of evidence base that I work with.

First, there was a UK Government publication back in 2018—I suppose really it was produced by the Treasury—which was a long-run technical assessment of the Brexit economic impact. In that it was argued, based on international experience—this was pre Brexit—that in general the existence of borders, or frictions at political borders, leads to so-called non-tariff barriers of somewhere between 5% and 11%, with an average of 8%. That implies that, where a border leads to delays, extra bureaucracy and checks, the total monetary impact of that translated into a percentage addition to the cost of bringing goods in would be of the order of 8%. That is a ballpark figure—of course, people will dispute how far it should be applied—but the 8% median figure could apply conceivably to the so-called Irish Sea border, which we now have to a great extent.

The second level of evidence—this is more my own personal research or uncovering of data, as it were—is the five data points that I mentioned before. There is Marks and Spencer’s 2021 annual report. There are the cost figures supplied through the BBC or published by the BBC relating to one Northern Ireland haulage firm, Allen Logistics. There are also the two anonymous manufacturing firms that gave evidence to your own committee, and some of their cost results were published in your report in July of last year. Finally, the UK National Audit Office in November 2021 published an estimate from the Horticultural Trades Association from the point of view of selling from Britain into the single market. They came up with the figure of 8%. I would assume that the 8% increase in costs and prices would also apply in the case of selling similar sorts of goods into Northern Ireland, given that Northern Ireland continues to have membership of the single market and GB does not.

That is the basis of saying that, on average, there is at least a 6% increase in costs for businesses bringing goods into Northern Ireland from Great Britain. Of course, the total flow of such goods, inputs and raw materials is very considerable. The most recent data from NISRA, the Northern Ireland Statistics and Research Agency, implied that it was £11 billion. Six per cent of £11 billion is roughly £600 million per annum.

Thirdly, there is the public sector or governmental cost. I mentioned that in dealing with Lord Hannan's question. That is of the order of £250 million per annum. It is made up of, for example, the Trader Support Service, the movement assistance scheme and, indeed, the vet and other checks and facilities that have had to be set up to varying extents and varying degrees of operation at Belfast port and the other points of entry into Northern Ireland.

The fourth evidence level that you particularly highlighted, Baroness O'Loan, is the impact on food prices or grocery prices. It is hard to be specific about the scales of effects, but—this point has been made to me by an expert from within the sector—it is very likely that there will be a shift away from reliance primarily on UK-wide food logistics systems, with the bigger market of 68 million and the relatively short transport distances from NI to GB and back, and towards supply chains that go into the Irish Republic and then on into France, Germany, Italy, et cetera. They are relying primarily on an island Irish market of 5 million plus 2 million. They will have smaller economies of scale and bigger transport costs.

In producing those figures of £50 million or £200 million, I am basing it on various scenarios or what we call sensitivity analyses. In the case of the £50 million, I am assuming that one quarter of the 34% price differential between the Republic of Ireland and UK in terms of retail food prices can be attributable to logistics supply chains. I am also assuming that a quarter of the total market, the £2.5 billion spent on groceries or food in retail Northern Ireland, would shift from UK-wide to ROI/EU supply chains. For the £50 million, I am assuming that the differential is a quarter, and a quarter of the supply chain shifts. That gives you the smaller figure. It is hard to come up with a precise figure. These are scenarios, but it is strongly indicative of a problem that the Northern Ireland public will face down the line as a consequence of the shift in trade patterns, which no doubt we will talk more about later in this session.

Stephen Kelly: The protocol costs businesses in Northern Ireland money. There is no doubt about that. Brexit's costs are being experienced by businesses throughout the UK. Our version of it comes with a cost as well. Indeed, the analysis done by Fraser of Allander suggests that the protocol does not provide the best of both worlds, but it does not provide the worst of all worlds either.

If you take the analysis that the UK's GDP will decline by 4% as a result of Brexit, Fraser of Allander's assessment is that it could be 2.5% in Northern Ireland, but that could drop to 1.3% if supply chains shift. Those are both based against the counterfactual of no Brexit at all. That is important to raise.

I would suggest that numbers are beginning to emerge, though. Numbers are beginning to emerge in terms of trade on the island of Ireland. There is Eurostat data on trade in Northern Ireland into the EU. We have also done some of our own assessments. There is a market now that handles these things outside of what firms do themselves. We know that commercially, for a business to use a broker, for instance, it costs about £75 per consignment. We know that the Trader Support Service looked after 486,000 movements in 2021. That related to 1.7 million consignments. If you apply the commercial rate of £75 to those 1.7 million consignments, it gives you a figure of just less than £128 million.

Our assessment would be that this is probably a decent idea of the actual administrative cost of the movement of goods from Great Britain into Northern Ireland. It does not account for the free movement of goods elsewhere in our supply chains. When we survey the manufacturing sector, manufacturers by necessity have a global supply chain. Yes, they buy a lot from Great Britain, but we know that three-quarters of what travels from Great Britain to Northern Ireland is grocery and not raw materials, components or ingredients for manufacturing. We do not have that cost on one end, but we do have the cost in the Irish Sea that we need to simplify and remove as far as possible.

So numbers are beginning to emerge on this. I would take that commercial value based on those 1.7 million consignments. That gives you a sense of the costs that businesses are having to endure as part of this process.

Lastly, when assessing all of this, we also have to assess the opportunity piece on the other side. As I have said, those numbers are beginning to emerge from the Central Statistics Office, and from company accounts. Those are showing incredibly healthy returns at this point in time, certainly for our manufacturing community. Where are the problems manifesting themselves in businesses when they are making an assessment on the impact or the benefit of this? Our manufacturing exporters are having the time of their lives, frankly. They are seeing that Great Britain's export sales to the EU have declined by 15%. Their export sales to Ireland have increased by 60%. People in Europe are moving away from the UK as a supplier of goods, and increasingly they are moving towards Northern Ireland as well.

There is also the issue of import substitution. We have countless examples now of great small manufacturing businesses in Northern Ireland that are picking up trade with GB supermarkets, for instance. They are not just supplying their stores in Northern Ireland but supplying, as a result of that, into the rest of the UK as well. It is going to take some time. There is an information gap about that trade in the United Kingdom. The survey results on that will be available towards the latter end of this year. Until then, we will not have a full idea of the impact—good, bad or ugly—of the protocol.

At this point in time, we have to go on the numbers that are available. Those are the numbers that are available in export statistics, in companies' accounts and from the Trader Support Service. Together, you begin to get a picture—that although there is pain and cost, our firms, as good entrepreneurs do, are grasping the opportunity that exists there, as they try to wrestle with some of the complexities involved.

Lord Hain: Did I hear that figure correctly? It struck me as being very significant. Was it a 60% increase in Northern Ireland manufacturing exports to the EU? Was I wrong or right in my understanding of that?

Stephen Kelly: That is just on the island of Ireland. The Central Statistics Office in Ireland has reported that in 2021 the value of goods sold in Northern Ireland to customers in Ireland has increased by 60%.

Baroness O'Loan: It was around 45% when we looked at it previously. That is very good. Thank you very much, Mr Kelly. That is very helpful. Mr Reidy, is there anything else you want to add? Would you like to tell us whether it is more appropriate to make the comparison with pre-Brexit arrangements or to look instead at the post-Brexit experience in the rest of the UK?

Owen Reidy: I would concur with much of what Stephen has said. Quite clearly, Brexit—and this particular type of Brexit, with the necessary attached protocol resulting from it—has increased the cost of doing business for many. Anything that has that impact has a second-wave impact on workers. We have had quite a bit of feedback over the last 12 to 18 months. Again, it is very hard to pull out and extrapolate Covid, Brexit and the protocol, but we have seen employers cite Brexit, in particular the protocol and the uncertainty around it, as a reason not to concede what we consider decent pay increases.

It has certainly had an impact, but we see the cause of that being not so much the protocol but the particular type of Brexit that the UK Government insisted upon, which resulted regrettably in a protocol. When people say, "The protocol costs money", we say, "Yes, but what do we compare it with?" You have to compare it with the pre-Brexit situation, because not only do we have the protocol but we have the ensuing political instability. We have no Executive; we have not had one for a few weeks, and it looks like we will not have one after the next Assembly elections. The difference of interpretation in how people perceive the protocol and the lack of a shared position on that creates political instability, which is clearly bad for the economy. I am sure it is bad for business. If it is bad for business, quite frankly, it is bad for workers. We cannot compare Northern Ireland post Brexit with the rest of the UK. We have to compare it to the situation before Brexit.

Q13 **Lord Hain:** You have given us very interesting evidence this afternoon, thank you. I was very struck by the two bits of written material that we have before us from Stephen and Esmond. Esmond's was pretty pessimistic in the Newsletter. It was more a polemical piece, I guess, for that outlet. Stephen's was more analytical and quite positive or optimistic, as I interpreted it.

We have covered some of this, but what impact has the protocol had on the balance of Northern Ireland's trade with the rest of the UK, with Ireland and with the EU as a whole? Within that, what is your assessment of the accuracy of trade figures pointing to an increase in north-south trade? How accurate are those figures?

Secondly, to what extent do your estimates take into account the relative impact of the protocol on trade with the rest of the UK and with the EU, including Ireland?

Stephen Kelly: It is good to see you again. The accuracy of trade data is notoriously difficult. It would be safe to say that, not just in the UK but elsewhere in the world, trade data is quite a complex area. It is the subject of quite significant reviews. We can probably expect that to happen over the next number of months as well.

When we asked the manufacturing community about their sales performance in GB, 21% said that they had an increase, 22% said they had a decrease, and 57% said they had business as expected. It is much of a muchness in the UK. Some of that is not surprising, because, in preparation for a potential no-deal Brexit, there was quite a significant shifting of supply chains in Northern Ireland. We were surveying the sector from 2017 right through to today. We are launching the questions for our new state of manufacturing survey tomorrow, so we will know this side of Easter what the latest numbers are there. There was quite a movement of manufacturers preparing for a potential no-deal Brexit in advance. Supply chains shifted and moved in advance of Brexit. That would be common throughout the whole of the UK.

From the feedback we were getting from the survey work with manufacturers, most people are seeing that it is business as usual with the rest of the UK, 20% are up and 20% are down. It is pretty flat overall.

Lord Hain: Esmond, I was very interested in your emphasis in that article on Northern Ireland's lack of a level playing field for the new free trade agreements which the UK is planning, and on free ports. Both of those will be pretty marginal in the overall picture, will they not?

Dr Esmond Birnie: To deal with that point first, it is very important and I am glad you have raised it. The protocol has longer-term implications in terms of constraining policy. Much of what we are discussing today, understandably, is about the immediate impacts on business costs and prices for consumers. As indeed the Chancellor said a couple of hours ago, his policy is to cut VAT on energy-efficiency improvements. He admitted that he can apply that in Great Britain, but he needs to get permission from the European Commission to do that in Northern Ireland, given that NI remains under the remit under the European Court of Justice and European trade laws and rules.

To an extent, I take your point. In isolation, any one of those policies, such as Northern Ireland's membership of a UK-wide free trade agreement with United States or whichever country, or Northern Ireland having a free port in Belfast, might not have a massive effect on Northern Ireland's GDP, but we are closing off policy options. Similarly, it will be much harder in practice, if an Executive ever did decide to apply the policy of cutting corporation tax, to do that given that the European Union rules preventing cross-subsidisation from central government would apply and any cut in corporation tax would require the block grant to be reduced by £150 million, £200 million or £250 million.

Lord Hain: I take your point, but, given the way the Treasury rules operate at the moment, from my time in the Cabinet as Secretary of State for Wales and Northern Ireland, if you devolve something, which is effectively what you are saying in the case of corporation tax, the Treasury is not going to maintain the block grant that it was previously providing to fill that segment.

Dr Esmond Birnie: They may well take that view.

Lord Hain: I am not sure there is such a change, is there?

Dr Esmond Birnie: It means that there is no discretion on the part of UK central government to show generosity. Interestingly, the Fiscal Commission, which the Minister of Finance set up some months back to look at the question of tax variation in Northern Ireland, in its interim report a few months ago recommended that consideration should be given to reducing the Northern Ireland corporation tax rate, especially in the light of the fact that the UK-wide rate will increase in a few years' time, but that should be coupled with a generous approach to the block grant adjustment.

My point is simply that there is no room for discretion. I accept that the Treasury's traditional hard-nosed approach would be to say, "You must take the quid pro quo of losing that revenue base". There is now no discretion about that.

Lord Hain: I never found the Treasury willing to give any discretionary opportunity to Wales, for example. The Treasury is pretty hard-nosed about it, but I understand the point you make.

Dr Esmond Birnie: Over the years, as you will know from being Secretary of State, at times it has given Northern Ireland more leniency than the rules of the fiscal framework would suggest.

Do you want me to make some remarks about the trade stats and their limitation?

Lord Hain: Please, yes.

Dr Esmond Birnie: Stephen has made these points well, but I would simply stress again that we have a gap until the end of this year. That is when we will finally get the NISRA or Northern Ireland-based stats of the NI-GB trade. At this point in time, we do not know about that. In terms of the southern Irish Central Statistics Office data, it has already gone through one major round of revision, which reduced down the growth rate between Northern Ireland and the Republic of Ireland. It is not inconceivable that there could be more revisions in the future.

I have noted that we have a separate database produced jointly north-south by NISRA, the Northern Ireland statistics body, and Transport

Infrastructure Ireland, the southern transport network organisation. This counts the number of vehicles crossing the Irish border at 15 major crossings. We have a numerical count of the number of light goods vehicles and heavy goods vehicles crossing in 2021 in both directions compared to 2020. Growth was 12%, which is considerable growth but is much lower than the 65% growth in Northern Ireland's export value to the Republic and the 54% growth coming in the opposite direction.

I find that differential puzzling. There are possible explanations. One is that lorries have been packed to the gunnels this year whereas two years ago they were half-empty. I do not find that entirely plausible. Maybe they are using different road crossings, but these are meant to be the 15 main road crossings. Maybe something odd has happened to the inflation rate of exports crossing the Irish border.

It raises some questions, but, ultimately, the major limitation or qualification on this rapid north-south trade growth—I accept to some extent that it has happened—is what economists call trade diversion. In effect, we have protected the whole island relative to Great Britain. We have created a tariff/non-tariff barrier on the Irish Sea. That has enabled north-south trade to boom, but the overall impact on the economy and people's welfare may not be as good as the individual case studies of businesses that are, as Stephen says, taking the opportunity from these changed markets. It is a classic case of protectionism, and economic welfare may well be less than it would have been.

Lord Hain: That is very interesting. Owen, what could you add to those two?

Owen Reidy: I can add very little, other than to say that this is somewhat ironic. If you look at the Belfast agreement, which I know you are very familiar with, if you look at the economic chapter of that agreement, InterTradeIreland was set up to promote north-south trade; ironically, it is Brexit and the protocol that have done that. The figures I am aware of from the Nevin Economic Research Institute show a 44% increase over a two-year period in imports from Northern Ireland to the Republic of Ireland and, sadly and regrettably, lower trade numbers from Britain to the Republic of Ireland as a consequence of Brexit.

There are obvious trade implications when you leave an arrangement that you have been in for 40-odd years in a very sudden and severe way. It just strikes me as ironic that the people who supported it now find it odd and strange that there would not be some economic dislocation.

Lord Hain: Perhaps I could briefly pick up that point with Esmond. You made an interesting point about overall economic welfare possibly being down. To pick up Stephen's point, to what extent would that be a consequence of Brexit? To what extent would it be a consequence of the protocol in isolation, to the extent that you can consider those two things in isolation?

Dr Esmond Birnie: To be honest, it would be hard to disentangle, but it is probably a combination of both.

Q14 **Lord Empey:** Good afternoon to our panel. May I just say at the outset for the record that Dr Birnie was my special adviser when I was Minister for Employment between 2007 and 2010?

Which sectors of the economy have been most significantly affected, either positively or negatively, by the protocol and by the changes in the balance of trade with the rest of the UK, Ireland and the EU as a whole? What is the reason for this? What impact has the protocol had on Northern Ireland's overall balance of trade in goods and services?.

Stephen Kelly: It is good to see you again. The two big opportunities in the protocol are in manufacturing and in distribution. Whether it is on the simple level of import substitution or whether it is those increases in cross-border trade, et cetera, we are already seeing some of those opportunities beginning to manifest. For instance, we know of significant new developments particularly around the distribution area, in particular in pharmaceuticals. There are new projects that have not formally been announced, but they are in planning as we speak.

If we take one element of the protocol itself, which is the ability for what pharmaceutical and life sciences businesses call their qualified persons, their QPs, to have the right to sign off and be trusted in both the UK market and the EU market, that has resulted in a very significant increase in pharmaceutical products being manufactured and traded from Northern Ireland into the EU. Those numbers are beginning to emerge, particularly in the CSO statistics. Those highly regulated areas in particular, as well as across general manufacturing and distribution, are where we are seeing the positives.

Where the real negatives are is businesses that trade solely in the United Kingdom, in Northern Ireland in particular or back into the rest of the UK, which have a very significant or majority supply chain from Great Britain into Northern Ireland. The worst-case scenario is a business in Northern Ireland that is almost exclusively supplied from Great Britain and its goods are sold exclusively in Northern Ireland or back into GB. They have all the pain and none of the gain. There are also people who have a significant GB supply chain but sell externally. From a manufacturing perspective, 85% of manufacturers sell externally to Northern Ireland. Those people have some of the pain, but they have significant gain. As a result, they are willing to endure that pain. That is a very simple definition of how the cards are falling for parts of our manufacturing economy.

If you are a retailer in Northern Ireland—I do not profess to be an expert in retail, although I am a very keen shopper—those retailers have largely international supply chains, but they are distributed largely through Great Britain. That additional burden of moving goods that they have already customs-cleared for instance in Great Britain to Northern Ireland has a cost and a negative competitive impact on their business. Those goods are not likely to be sold. Take the Asda store in Strabane. They may well have the odd meal travelling across the Lifford Bridge in Donegal, but there is no significant move in terms of an impact on the EU's market. They have the full EU customs code applied to them, which is disproportionate to the risk that is being provided by that business. For us, it is about simplifying the processes, removing from all businesses the presumption of guilt, enabling goods to move into the EU's market and ensuring that Northern Ireland's competitive position now and in the future is secured.

Esmond began to touch on the longer term. Most of the issues that my members are now reporting to us are things that the UK has done, is about to do or has not delivered upon. I will give a couple of examples by way of illustration. Chinese-origin aluminium extrusions are subject to an anti-dumping duty in the EU. Anything that is subject to those trade safeguarding measures in the EU is automatically applied to Northern Ireland. The UK does not have a domestic aluminium production capability of any significance, so rightly it decided not to apply that cost to consumers. It did not apply that anti-dumping duty. By force of the protocol, that duty is applied automatically on goods coming into Northern Ireland. Our firms have to pay that through their importer. That has a negative impact on their competitive position in the UK market.

The means to mitigate against that was promised to the UK Government in the form of a reimbursement scheme. The UK Government committed to reimbursing that tariff for all the goods that may be subject to a tariff being applied that remain in Northern Ireland or go back to the UK. That scheme should have been in place by July last year, but we are sitting here today on 23 March and that still has not been applied. All those costs were applied to businesses here, and the promised reimbursement has not been delivered by the UK Government.

Yes, there are problems that we need fixed with the EU, but the UK also needs to live up to some of the commitments it has given to businesses in Northern Ireland. I have other examples that I am happy to share later, but I am conscious that I am taking up everybody's time.

Lord Empey: I am quite sure that the committee would be happy to receive any further information in writing to the clerks, if that is convenient.

The Chair: It would indeed be extremely helpful if you were able to do that. Thank you very much.

Q15 **Lord Empey:** Owen, what are your members telling you about what is going up, what is going down and how it affects them?

Owen Reidy: I do not have too much to contribute on this question, because I would be repeating myself. We are not getting a lot of feedback from unions and union members on the impact, as they perceive it, of the protocol on their work other than in the area of pay. On the specifics of the question, the time would be better allocated to Stephen and Esmond.

Lord Empey: Esmond, in the work you have done on this over the last few months, the one thing that nobody seems to be focused on is currency movements, which quite clearly have an impact in all this. There have been quite significant movements. Are those taken into account along with the other things? Of course, I would ask you the full question again, but I would just add that as a rider. Is it significant? Would you also agree that we are at too early a stage because we do not have a full suite of statistics? That is something that we are labouring against as a committee.

Dr Esmond Birnie: Yes, you are entirely right. We do not have a full suite of statistics. We will get more towards the end of the year from NISRA, particularly relating to GB to Northern Ireland. Even at that stage, there will still be some questions that the data will not fully resolve.

On your question about which sectors are more or less affected by the protocol and so forth, I agree with Stephen's point to an extent here. The key determinant is the extent to which businesses are reliant on importing inputs, materials or basic products for further processing from Great Britain. To assess the impact of that, you need an overall multisectoral model of the economy. Fraser of Allander has attempted to do that in its report from November of last year.

Interestingly, across almost every sector of the Northern Ireland economy, they showed that, on balance, even when you allow for the positive effects, the net effect of the protocol was negative. The extent or scale of that net negative effect was bigger in manufacturing. Interestingly, that included food processing, where some might have thought that this would not be the case. In manufacturing as a whole, including food processing, there was a bigger net negative effect than in services. Of course, part of the explanation of that is that service activities are less reliant on material inputs from Great Britain.

In terms of the overall trade balance effect, again we do not have the complete picture, but we can say that Northern Ireland's trade surplus in goods with the Republic of Ireland has improved. I looked at the figures from the Central Statistics Office in Dublin for the period from January through to November last year. Admittedly I have not yet been able to include the December figures, but those figures suggest that, once you allow for the exchange rate, given that Northern Ireland's exports to the Republic were growing more rapidly, there was a positive growth in trade of roughly £200 million.

You raise a very interesting point about the impact of exchange rate movements that I cannot answer. My perception of the position over the last two years—I have not checked the data and I do not have it in front of me—is that the pound-euro exchange rate has not altered all that much. As an explanation of trading patterns between the three jurisdictions, that may not be a key issue. There could be bigger or wider international exchange rate movements that could not be discounted.

Q16 **Lord Thomas of Gresford:** Stephen, you used an interesting phrase, which struck me as a criminal lawyer. You talked about a presumption of guilt. I presume that presumption is that goods crossing into Northern Ireland will go on to Ireland and to the EU. Who holds that presumption, and to what extent do traders in Northern Ireland feel under surveillance and pressure on that issue? I would like to dig a little into that phrase.

Stephen Kelly: The presumption of guilt is in the protocol. Anything that is subject to a trade measure—commodities such as steel, aluminium, et cetera—is automatically presumed guilty of potentially working its way into the EU's market.

The second piece is that goods that are subject to commercial processing, which takes up a large part of manufacturing, are also presumed guilty. It is a function of the protocol itself. If the outcome were flipped on its head, we would have a much better outcome for Northern Ireland in which the presumption would be that the goods were not destined for the EU. That would remove quite significant burdens upon very many traders in Northern Ireland. Through other evidence such as VAT returns, company returns and a whole raft of other publicly available documents, you could quite clearly see who was trading with the EU and who was not, and who was providing goods to the EU and who was not. In that question, if that presumption was turned on its head, we would be in a much more favourable position than we are currently.

Lord Thomas of Gresford: It is a question of the wording of the protocol itself, which perhaps could be looked at again.

Stephen Kelly: It is. There is a function in the protocol that means that the people responsible for running the Joint Committee can continually have under review what is perceived to be at risk and what those goods may be, without the need to go back to Parliaments in Brussels or Westminster. There are already carve-outs. For instance, there are carve-outs there for stuff in construction and charities.

Construction is the obvious one. It is close to manufacturing where, if you are bringing building materials to Northern Ireland for a construction project, you cannot quite easily move the entire building to the European market, so it is easy for them to presume that that is innocent at that point. It is much more difficult and tricky when there is commercial processing involved, such as for manufacturers and the wholesaling of goods. We do quite well in the all-Ireland market wholesaled from Northern Ireland to the rest of the island. It is much trickier in those areas.

Q17 **Baroness Ritchie of Downpatrick:** Could I thank our panel so far for their excellent evidence to us, which has been particularly illuminating? My question concentrates on the economic advantages of the protocol. Do you perceive any economic advantages, potential opportunities or mitigations for Northern Ireland under the protocol? How can such benefits be quantified, and which sectors of the economy stand to benefit? Originally, whenever Stephen made his submission, he talked about incredibly healthy returns; it may be useful, if Stephen could send us some documentary evidence on that. That is probably from the Central Statistics Office in the Republic of Ireland.

Stephen Kelly: I reflected earlier on the opportunity piece there. The two big opportunities for Northern Ireland are in manufacturing and distribution. We are beginning to see some projects in both those areas.

It is really important to ensure that the committee has clear sight of the fact that, unlike the rest of the UK, Northern Ireland's external income is dependent upon goods. In terms of the last available statistics, we sell roughly the same amount between export markets and into the rest of the UK in cash terms as the Treasury gives Northern Ireland to run public services. We dominate our export statistics. We dominate our external sales to the rest of the UK in goods, whereas the UK's external income is dominated by services. The movement of goods from Northern Ireland to other markets is critically important, because we depend upon that good, clean external source of income in order to pay for people in jobs right across Northern Ireland.

As an aside, manufacturing jobs tend to be in more rural constituencies. They tend not to be in the centre of cities, so they are incredibly important for cohesion in communities right across Northern Ireland.

I was in Washington DC last week. It was a very interesting experience. There is an enormous amount of good will to the people of Northern Ireland and our economy. Our Minister, officials from Invest NI and others were also there. People who are responsible for investment into Northern Ireland are reporting their healthiest-ever order book when it comes to interest in potentially investing in Northern Ireland.

The challenge is twofold. One is that quite clearly the protocol has caused significant political instability in Northern Ireland. If I were in a boardroom anywhere in the world and I were doing my basic PESTLE analysis, the very first question I would ask would be about political stability. A blind man on a galloping horse can tell you that we do not have that right now, so that is a real risk to boardrooms and Northern Ireland's potential attractiveness as a place to invest.

Secondly, we simply do not have the people. I could employ another 15,000 people in manufacturing today across the sector to meet the demand that exists in our manufacturing businesses. We do not have freedom of movement. We know that a third of our EU migrants have left since the EU referendum. In the last two years, because of Covid, we have probably only had one-eighth of the amount of migration to Northern Ireland that we had previously, and we know that because of demographics. Instead of the usual 100,000 people coming into the workforce, we will have fewer than 10,000 people in the next decades.

We are in a period now where we have more jobs, more demand for employees and record numbers of people on payroll, but we do not have the people to fill those roles. We are approaching a period of quite significant change not just for our manufacturers but for others in business. That is a positive thing, because it will drive up conditions, pay, et cetera, but if you are a business looking at Northern Ireland as a place to invest, you will want to know whether you have two things: first, the political stability and, secondly, the people. Most people looking in from outside right now would say that there is a risk there rather than an opportunity. That will in some respects dampen the enthusiasm of investors potentially coming in and investing.

Baroness Ritchie of Downpatrick: Owen, maybe you have been looking at the labour market.

Owen Reidy: In answer to the question whether there are opportunities or benefits, it depends on what we are comparing it to. If we are comparing it to the pre-2016 situation, the answer is clearly no, because the pre-2016 situation, from our point of view, was a much more favourable situation. Only post 2016, with the challenges of the type of Brexit which the UK Government have insisted upon and the necessary protocol as an outworking of that Brexit, do we have these additional burdens. So much for seeking to get rid of red tape and bureaucracy. Given the type of Brexit that was sought and delivered, it seems to me that we have needed to have these mitigations and a protocol to deal with that.

I completely concur with what Stephen has said. One of the key problems in Northern Ireland is that not everybody can be a primary school teacher. We do not seem to match our skillsets with the needs of the economy, and there is no joined-up thinking there. Talking about Brexit, the pre-2016 era was much more favourable, because we now have that extra political instability. I concur with him on the point about external good will, but it will only go so far.

Inward migration is also affected. It would be wrong for anyone to think that the inward migration figures are not also affected by Brexit. They are also affected by a lot of European migrants going to the Republic of Ireland, where wages are a bit higher, notwithstanding Esmond’s point about the cost of foodstuffs and things like that. It seems to me that a range of issues are coming together, and the protocol is the least worst option and situation. It provides some protections and mitigations, but I am not going to suggest that it is a great thing. If we compare it with the pre-2016 situation, if we were to gear ourselves in the correct way there would be more potential economic opportunities and benefits.

Dr Esmond Birnie: There are certainly some benefits, although I repeat that it is overwhelmingly likely on balance that the costs will outweigh those benefits. There are two principal benefits. We have already discussed one: the extent of growth in north-south trade. That is qualified by saying that some of that is trade diversion, and the impact of economic well-being and welfare may not be straightforward. The second major benefit, which admittedly overlaps with a later question, is possible growth in the amount of inward investment, given the reality, or perhaps the perception, that Northern Ireland has a foot in both camps with access to the UK internal market and the European Union single market.

With respect to foreign direct investment, Stephen referred to what people were saying in Washington last week. It is hard to get a handle on this because of the lack of up-to-date data in the public domain, but I have looked at all the job announcement figures produced by Invest Northern Ireland over the last two and a third years—the 2020 figures, the 2021 figures, and the figures through to mid-March of this year. We need to look at whether the proportion of job announcement figures coming from manufacturing has gone up, because the protocol refers to goods, not services. Therefore, if it is to have an impact on foreign direct investment, inward investment or investment more generally, including reinvestment by established companies, it will be felt in manufacturing.

The data does not yet indicate any such bounce. In 2020, Invest NI announced 616 jobs for manufacturing, and there were 1,626 for services, principally things like IT and back offices. From January 2021 through to mid-March of this year, 508 jobs were announced for manufacturing and 2,514 were announced for services. The very full order books that Stephen is referring to seem to exist and are there in the Invest NI figures, but they relate mainly to services activities that are not really being affected by the protocol, either positively or negatively.

Stephen Kelly: On that last point, manufacturing jobs have recovered to where they were pre-Covid. There is an increase of 1%. It is fine to look through press releases from Invest NI for job announcements, but most manufacturers do not engage with Invest NI to start with. It is probably only about 10% of them.

Secondly, these are not publicly supported jobs. They are jobs in their business. The jobs have recovered to where they were pre pandemic. When you look at manufacturing as a whole, the increase in jobs overall has been driven largely by the manufacturing community rather than the service jobs that Esmond mentioned earlier.

Dr Esmond Birnie: Just to comment on what Stephen has just said, I entirely accept that there are big limitations to job announcement figures, but it is the best data that we can get contemporaneously on the impact, particularly when it comes to foreign direct investment. Many commentators have argued that a definite bounce is coming through the protocol, so I thought it important to try to test that with the data that is available. The test suggests great doubts as to whether there is a protocol impact on manufacturing-specific foreign direct investment. We are continuing—and we should be very grateful for it, of course—to have a mass of inward investment on the service side, but that probably has very little to do with the protocol.

Q18 **Lord Godson:** Welcome to all our distinguished guests. I share in the pleasure at their contributions today. I declare an interest quite after the fashion of my noble friend Lord Empey in having known you through the years; I last saw you 20 years ago, Dr Birnie. Thank you for your contribution to the debate on these matters in Northern Ireland. I only mention it because I do not share Lord Hain's characterisation of the welcome contribution of Mr Kelly as being analytical and yours as being polemical. Indeed, nobody has polemicised less than you through the years.

Lord Hain: I only meant in respect of that article, not generally.

Lord Godson: It is worth saying for the record. My question has been pre-empted in some ways, also in a welcome fashion, by several of the witnesses in their previous statements, but I have a quick question for Owen. You mentioned that your members had not expressed a view on the protocol. Was this because they had been formally polled or informal soundings had been taken at branch meetings? I am interested, first, in the nature of the feedback from the members and how your views were ascertained on their opinions.

The second question, which is particularly for you but is also for others, is about the impact on your members, as consumers as well as producers, of Dr Birnie's point about the cost of groceries and food costs generally. They affect the least privileged in society, to whom you referred in your opening comments today.

Owen Reidy: We have not formally polled them, but certainly through branch meetings, union meetings and union conferences, any concerns about the protocol articulated by our members are usually about political stability and instability and the negative knock-on economic consequences. They are hugely concerned by that.

We are a cross-community organisation. We represent workers from various backgrounds; they identify as British, Irish, Northern Irish, all of the above or none of the above. We represent international workers. They have their own perspectives on the constitutional issue and the degree to which the protocol is a constitutional issue. Some see it as that, some certainly do not see it as that. The feedback is more primarily about the political instability. There is some concern, as I said earlier in response to an earlier question, that when it comes to Brexit, the protocol and the uncertainty around it, workers were told in a number of cases, "Sorry, your pay claim of 2% or 3% is not viable. We can't do it now". There was an element of that.

You mentioned the cost of living crisis. That is a huge issue for people, and it is a real problem. Regrettably, we have already seen quite a lot of industrial action in Northern Ireland in the last couple of weeks, and we will see it over the next months, because the state has not been able to mitigate the macroeconomic shocks that have led to the cost of living crisis. What the Chancellor has done today will certainly not do anything on that front, so you will see unions and workers seeking reasonable pay increases to seek to protect their living standards from circumstances beyond their control. That will create its own tensions.

I know you said that one of the questions was pre-empted. I was waiting for a question on foreign direct investment. When I talk to business owners, leaders and representatives—people like Stephen and his colleagues—there is a commonality from all of them when you talk about foreign direct investment. Employers that I deal with and have dealt with for years want certainty and security if they are to invest considerable sums of money—in many cases, their own or that of others like their shareholders—in setting up enterprises. Obviously, given the disagreement about the protocol, we do not have that.

There is another matter. If we did not have the protocol, you could argue that the old cliché of some elements of Northern Ireland having the best of both worlds by having access to both the EU and the British market will not necessarily be the case. That foreign direct investment issue is important. Invest NI needs to stop marketing Northern Ireland as a cheap place to do business, because that is not sustainable for business, workers, society or the economy in the long run.

Lord Godson: I would be interested in a tiny bit more detail on the impact of the protocol on GB-to-NI foodstuffs crossing the Irish Sea.

Owen Reidy: I do not have people or unions coming to me saying that there are issues and people cannot get X, Y or Z on their food shelves. The issue has not been raised at union meetings, quite frankly.

Stephen Kelly: Owen has largely covered it. The challenge for Northern Ireland being an attractive place to invest is predicated on all investors looking at the location and thinking, "Is that a safe place to put my money?" That begins with political stability. We know that we do not have that, and we require it.

When the protocol was first agreed by the Prime Minister and subsequently approved by Parliament here and in Brussels, the business community was really clear. We said, "Listen, for it to work, we need derogations, mitigations and compensation", to make that plan and for both sides to have something operational and sustainable for businesses. We spent all of 2020 and 2021 trying to have that conversation with both parties, and that continues today. Our demands remain the same: political stability and affordability. In previous evidence to this committee and others, we said that those were the tests that we required to be addressed. That remains the same today as it was then.

Dr Esmond Birnie: I am not sure I have much to add at this point. On the question of the impact of foreign direct investment, I would simply repeat the point that if the protocol could have a positive effect, you would see it in foreign direct investment and manufacturing. I concede that job announcement figures have their limitations, but they are the best we have, and the data that we have suggests that that is not happening. For good or bad, Northern Ireland remains reliant largely on service sector inward investment.

Stephen Kelly: I forgot to add two things. Investments from manufacturers are announced almost weekly now on a smaller scale, but one of the two largest announcements was by Almac, which is our largest homegrown manufacturing business. It talks about the benefit of having the qualified person I mentioned earlier signing batches of drugs off into the UK and EU markets, and that that has given it an advantage. It made the single largest job announcements in my lifetime in business in Northern Ireland. There were 1,800 jobs, 1,000 of them relocating to Northern Ireland.

Secondly, the single biggest investment in our production capability was announced by a packaging firm called Ardagh Metal Packaging to service its customers in Northern Ireland, the UK and the EU. That is the single largest investment since John DeLorean arrived in the 1980s. Ironically, both are in the tin can business, but we would hope that Ardagh's future is much more promising than John DeLorean's success.

The Chair: We can all agree on that.

Q19 **Baroness O'Loan:** My question has two parts, but in answering it I would ask you to focus on the second part. What impact would changes to streamline the protocol's operation have on your assumptions, and which changes would have the most significant economic effect?

Stephen Kelly: As a business community, we have been working very closely with the UK Government and the EU so that they understand the challenges that have been presented to traders in Northern Ireland. We have offered insight and critique of the positions that they have presented, particularly the EU's non-papers back in October of last year. We engaged in a six-week deep dive with them. Indeed, it culminated in bringing the EU's specialised committee team—their officials in the room doing the negotiations—to Northern Ireland for the first time, visiting farms and retail distribution, manufacturers, et cetera, so that they fully understood the on-the-ground impact from the operation of the protocol.

We have left both sides equally at the same time with a series of asks that we have as a business community as a whole. The biggest challenge remains in the arena of SPS. That is not wholly my area. We have some in food manufacturing, but other colleagues in the Northern Ireland business community are closer to this. We have said that we require an agreement between the UK and the EU on SPS. That would significantly remove a lot of the friction. It would significantly improve the potential economic and choice impact for consumers in Northern Ireland.

Even if that were an SPS agreement for now rather than an SPS agreement for ever, in the period where the UK has yet to diverge significantly in those areas, that would bring two things for us. One would be a significant reduction in risk and more certainty for businesses, but it would also significantly decompress some of our politics, which is equally important. For us, the number one call is for an SPS agreement between the UK and the EU, at least for now.

The second piece, which I reflected on earlier, is about the presumption of guilt. Flipping that on its head would significantly alter the challenge for businesses and traders here and significantly reduce the administrative burden that adds costs, which I outlined earlier. If we had those two things, that would have quite an enormous impact societally, but particularly for our businesses from a trading perspective.

Owen Reidy: In very general terms, both parties to the protocol should not be overly precious about it. No one should get too hung up about any flexibility that can make a protocol work better or more differently. Quite frankly, the real problem is the political interpretation and connotations around how people perceive the protocol in Northern Ireland, particularly how the two large traditional communities perceive the protocol. Unless we can square that circle, I cannot see how ultimately we will make progress.

It seems to me that all the solutions have been articulated over the last number of months in the four EU non-papers. From our engagement with Maroš Šefčovič, he says that they would deal with 80% to 85% of the customs checks and things like that that are barriers between Northern Ireland and Britain. It will be the political scenario that creates the problem, because obviously we do not want to see a harder border on the island of Ireland. We do not want to see any additional borders between Northern Ireland and Britain, but there is a border on the island of Ireland, and there is a border between Northern Ireland and Britain, and it is called devolution.

It is much more of a political problem than an economic problem. Business and workers will adjust and work around these things because they will have to. The politics are getting in the way of ultimately reaching a solution.

Dr Esmond Birnie: In general terms, any measures that reduce the cost impediment and the extra costs that the protocol has hitherto imposed on movements of goods from Great Britain to Northern Ireland would be beneficial in economic terms. We do not have enough detailed data to go further and weigh up which would be the more decisive measure: having something on SPS, which Stephen referred to, or a more generous approach from the European Commission to the definition of the goods at risk of moving on from NI into the ROI/EU 27 market. They would all be beneficial.

Q20 **Lord Dodds of Duncairn:** Thank you to Stephen, Owen and Esmond for your very interesting evidence thus far. We have been talking throughout this evidence session about the operation of the protocol, but of course we always have to remind ourselves that the protocol has only been implemented in part. It is relatively light-touch at the moment. We have these grace periods. For instance, it has been estimated that, if there was no grace period for agri-food products, we would be doing as many checks between Great Britain and Northern Ireland as the whole of the EU does at all its external borders just on the GB-NI route.

My question, which is the converse of the previous question, is what the effect would be if those grace periods ended. What would be the economic impact of the full imposition of the protocol, fuller implementation or the removal of the grace periods?

Stephen Kelly: It is good to see you again. The place to start in answering that question is that no one believes that the protocol as written in the operational plan in December 2020 will be delivered, even with the grace periods gone. My description of this is that the process we are engaged in at the moment is not about raising the floor; it is about lowering the ceiling. Yes, there may be an expectation from some in the European Union and a worrying concern from business and the community in Northern Ireland that the grace periods will be removed and suddenly the floor is risen.

Both sides are engaged in a negotiation—we support this—that is about lowering the burden on businesses and consumers rather than raising that burden. Our expectation is that some of the things that are already in a grace period will be permanently in a grace period, because the UK has placed them there at this point in time. It has unilaterally extended the grace periods, and we would all agree that the likelihood of the UK moving off that position is pretty low. The expectation from business, and I would probably argue from the European Union, is that those grace periods will likely not be removed. Quite significantly, even if they are removed, it will be quite light-touch compared to what is anticipated.

That is because there is evidence, from economic, practicality and community points of view, that the burden of the removal of those grace periods without an agreement on what replaces them could not be borne by business or the community in Northern Ireland. It took a little while, but there is an acceptance now on both sides that the complete removal of those grace periods is probably unlikely. They will be replaced with something else.

If I quantify that a little for you, the parcels derogation and grace period that exists at the moment is there and will continue for ever for business to consumers, so there will be no customs declarations for business to consumers stuff, but there is likely to be something for business to business. There is a limit of £135 on that at this point in time, so anything above that needs a customs declaration.

If that parcels grace period were removed, the likely impact on business would be a five-to-seven-times multiple of the customs requirements that businesses would have to endure in what they receive via fast parcel operators. No one in business who I speak to, and no business representative who speaks to the EU or the UK, says that that is an acceptable position, so we will not accept that position. We need alternatives to what was proposed in the operational plan back in 2020, and that is where work is concentrated. What are the alternative sources of data, some of which are already in existence and some of which are already generated by traders or customs authorities, that can be used to replace the additional burden on business-to-business parcel operators that may be required?

That is the challenge for all sides. It is a space in which both the UK and the EU now accept that the full implementation of the protocol, as written in the operational plan in 2020, will not happen. All sides, including business, are providing pragmatic alternatives to what was proposed there, based on the actual risk that is being imposed and done in an affordable, economic and simple way to ensure a freer movement of goods between Great Britain and Northern Ireland.

Lord Dodds of Duncairn: It is clear from what you are saying that going back to the original protocol is almost unthinkable. That is considerable movement compared with where people were just a few months ago, when the Government were heavily criticised for doing the grace periods.

Dr Esmond Birnie: I agree with all the detail that Stephen has just added. I hope the correct interpretation is that the European Commission, along with the UK Government, has come to accept that full implementation of the original protocol's terms is not viable.

There are country indications. The Directorate-General for Health and Food Safety, for example, produced a draft report of a Commission control carried out in the United Kingdom from 21 to 30 June 2021 on the system of official controls on entry of animals, et cetera. That report talked very much in terms of full implementation with respect to parcels, pets, personal luggage of travellers, increasing the rate of food checks from the current 30% to 100%, and increasing the number of vets working at the points of entry from 16 to 40. In quantitative terms, if anything like that were to occur even part of the way, the volume of checking, and hence the economic cost that we talked about earlier, would ramp up considerably.

Owen Reidy: I have little to add, other than it being entirely reasonable that, in the absence of an agreement between the parties, the grace periods continue. That is a very logical and reasonable position to take in any negotiation. You do not seek to undermine the context of those negotiations.

As I said earlier, people should not be too precious about the protocol or a protocol. It is quite clear, given the type of Brexit that was required by the UK Government, and given the geography of Northern Ireland, that there is need for a protocol and specific arrangements for Northern Ireland, given the land border with the island of Ireland and the EU. People have to be flexible and generous.

But the real issue is not so much the economic consequences. It seems to me that politics is perhaps holding that back, and the two are interconnected. If you have a breakdown or the grace periods were interrupted, that has economic consequences, as you have outlined, in relation to agriculture, the checks, the consequences of the costs and the knock-ons of that. It also has wider political consequences, and we are then into a vicious circle of political instability affecting the economics.

Q21 **The Chair:** Is it possible to quantify the economic impact of continued political uncertainty in Northern Ireland, including in relation to the protocol? There have been quite a lot of references to political uncertainty already.

Owen Reidy: Again, there will be an economic impact of the continuing political uncertainty around the protocol, but the protocol is a direct result of the Brexit that we have. When people talk about the cost of the protocol, quite frankly we really need to talk about the cost of Brexit.

Anyway, I looked at the statistics earlier. Nearly one in four workers in Northern Ireland earn below the real living wage. We have the highest proportion of people on low pay of all the 12 regions of the UK. If you look at that and the level of in-work poverty that we have here, part of the economy is doing very well, but another part of the economy is part of economic stagnation, drift and inertia. A lot of people we represent are suffering as a result.

It is quite clear that the political uncertainty and instability that we have will not address those fundamental issues. For probably a third of the time since the Belfast/Good Friday agreement, Stormont has been dormant, for a range of reasons. Without getting into them, it should never ultimately be dormant, because the people deserve devolved government and good governance.

The political instability that is the latest crisis relating to identity, Brexit and the protocol will certainly damage the economy further unless we address it. We need good partnership government that not only shares power amongst the five political parties but is inclusive of the voices of social partners, business, the trade union movement, the community and voluntary sector and the agriculture community. This social dialogue is practised throughout most of western Europe but is very absent in Northern Ireland.

Yes, this is a huge problem, and it needs to be tackled. That statistic of nearly one in four workers in Northern Ireland earning below the real living wage is the burning issue. As we continue with political instability and economic stagnation, their concerns and in-work poverty will not be addressed.

Dr Esmond Birnie: It is a very good question. Political instability is inherently a bad thing, and it has bad effects on the economy. We cannot argue with that, but I am very doubtful whether we can quantify the effect. Businesses, as we are often told, do not like uncertainty. It harms their investment behaviour and so forth. That is true, but many factors influence the behaviour of businesses, and indeed workers. It is possible to some extent that the impact of uncertainty has been going on for so long, as the previous witness referred to, that some of the negative impact is now somewhat discounted. We have international historical examples of economies that have grown rapidly, notwithstanding very severe political uncertainty.

It is important that we make comparisons not to an idealised form of devolution that we might ideally wish to have, but to the form of devolution that we have had. This is very relevant to the debate about not having an executive budget at the moment. Some people blame that on the absence of the Executive, but even before the Executive collapsed and the First Minister resigned, the Executive had not agreed the budget document in any case.

Lastly, it is probably true that Northern Ireland is missing out on the full potential of devolution. It could have the best of all possible worlds, but we have arguably never been in the best of all possible worlds. Even when we had functioning Executives, the quality of policy decision-making was often not of the highest standard.

Stephen Kelly: The best guess in answer to that question is research published by the Confederation of British Industry in Northern Ireland, which said that the last time our Executive fell between 2017 to the end of 2019, it was, in its analysis, at a cost to the Northern Ireland economy of £939 million. It was about £1.1 million per day during that period, which is a number that commentators at home will be familiar with from other analysis of the protocol.

In conclusion, not everybody likes our politicians, but they are ours. I am very much looking forward to going to the polls on 5 May and selecting the whole way down the list. I am handed the politicians I deserve as a result of that. Alongside others in business, we would very much hope that the parties can, quite quickly after that, agree an Executive, because we have quite significant existential issues: economic, social, health and others. We really need people from our community there, who know and understand us, making those decisions on our behalf. That is a much better outcome than what we have at the moment. That will be shared by those who potentially will come to Northern Ireland to create their home, invest and create work for us.

The Chair: That is a good and thoughtful point on which to finish. We have had a very helpful session this afternoon. Huge thanks to all of you for giving us some very good and clear answers to some useful and interesting questions. Thank you very much indeed, all three of you, for the time you spent with us this afternoon when you have a huge amount else on your minds.