

Committee on the Future

Relationship with the European Union

Oral evidence: Progress of the negotiations on the UK's future relationship with the EU, HC 203

Wednesday 18 November 2020

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Members present: Hilary Benn (Chair); Mr Peter Bone; Joanna Cherry; Sally-Ann Hart; Stephen Kinnock; Nigel Mills; Mr Barry Sheerman; Matt Vickers; Dr Jamie Wallis; Dr Philippa Whitford.

Questions 1004–1061

Witnesses

I: Aodhán Connolly, Director, Northern Ireland Retail Consortium; Stephen Kelly, Chief Executive, Manufacturing Northern Ireland; Victor Chestnutt, President, Ulster Farmers' Union.

Examination of witnesses

Witnesses: Aodhán Connolly, Stephen Kelly and Victor Chestnutt.

Chair: Good morning, and welcome to this meeting of the Select Committee on the Future Relationship with the European Union. I am going to begin by asking our three witnesses today to introduce themselves for the record.

Aodhán Connolly: My name is Aodhán Connolly. I am a director of the Northern Ireland Retail Consortium and the convener of the Northern Ireland Business Brexit Working Group.

Stephen Kelly: Good morning. I am Stephen Kelly. I am chief executive of Manufacturing Northern Ireland, which is a representative body of the sector—everyone who makes anything from aircraft wings to chicken wings, and everything in between.

Victor Chestnutt: Good morning, everyone. I am Victor Chestnutt. I am president of the Ulster Farmers' Union.

Q1004 **Chair:** On behalf of the whole Committee, a very warm welcome to all three of you. We are extremely grateful to you for giving up your valuable time to give evidence and enlighten us this morning. I am going to kick off. I should explain that Victor Chestnutt has time constraints this morning. Given where we are on both the negotiations about an agreement and the changes that will be taking place on 1 January because of the Northern Ireland protocol, what are your members saying to you about the things they are most concerned about?

Victor Chestnutt: The uncertainty is the thing that is exercising us the most. It is six weeks until the day. It feels like we are going forward with both hands tied behind our back and a blindfold on. We farmers are a



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resilient bunch; if you give us clarity and time we will get through it, but we need an implementation period, a honeymoon period or whatever, once we have sight of whether there is a deal or a no deal, to be able to get through it.

Q1005 **Chair:** You would like some kind of implementation period, whether there is or there is not.

Victor Chestnutt: Yes. Because Government has been slow, the Trader Support Service is just getting up and running. Our farmers are just realising that they need to sign in; because of the protocol and the differential treatment now between Northern Ireland and Great Britain for the protocol to be implemented, we are discovering that we need to have special numbers. We need to register for the Trader Support Service as farmers. It takes time for this all to happen, and unfortunately, with Government just starting to get into gear now, we just do not have time. We will not be ready on 1 January. There will not be infrastructure at the ports. The Trader Support Service was supposed to have one for agricultural and animal products. That is not even set up. We have not even seen sight of an agri-food movement assistance scheme yet and there are six weeks to go.

Q1006 **Chair:** What will be the practical consequence for your members of what you have just described and the things that are not going to be ready by 1 January? How will it affect their day-to-day business and their farming?

Victor Chestnutt: The agri-food business in Northern Ireland and the island of Ireland is completely integrated. A third of our milk goes south.



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Almost half of our lambs go south. Some of that product comes back into the UK. Some of it goes on into the EU. Some of it goes outside the EU. When our produce is produced in Northern Ireland and processed in the Republic of Ireland, as yet we do not have complete clarity as to whether that can go out in European trade deals and how it will come back into the UK.

The UK is our main market. As farmers in Northern Ireland we are very proud of the fact that we are a region of 1.8 million people, 24,000 farm businesses—some of them very small and part-time—and we produce enough food to feed 10 million. Our main market is the UK. We are concerned about any blockages between here and Great Britain. We are also concerned that Northern Ireland is used as a back door into the UK market, so therefore the integrity of our food gets compromised and somehow people lose the trust in Northern Ireland food being fully British and fully Red Tractor.

Q1007 **Chair:** That is extremely helpful. Aodhán Connolly, we have heard reports in recent weeks from food manufacturers about the impact that the current set of circumstances may have on food supplies coming from GB into Northern Ireland. We have seen the letter that the First Minister and the Deputy First Minister wrote to the EU Commission. How worried are you and your members about an impact on food coming into Northern Ireland?

Aodhán Connolly: We are hugely worried. It would be remiss of me if I did not say how monumental that letter from the First Minister and the



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Deputy First Minister was. The fact that they are polar opposites on a lot of things but they were able to stand together to do that was very, very welcome. We are really concerned because things simply will not be ready; business will not be ready and the supply chain will not be ready. The FTA or no FTA will be the difference between a paper customs wall and a brick customs wall down the Irish Sea.

Even if we get that good FTA with zero quotas and zero tariffs, there are still going to be new costs. We do not know how SPS checks are going to work, and those export health certificates can be up to £200 a time. Over 90% of the loads that go from Great Britain to Northern Ireland are composite loads, which means you will have maybe up to 1,500 or 2,000 products onboard. Of those, you can have 300 or 400 that will be products of animal origin, especially around Christmas time. That means that there will be tens of thousands of pounds of extra cost.

There are other things such as the prohibited list, the list of things such as seed potatoes, seeds, mince and sausages, for which, quite simply, there is not an export health certificate in place. That means that, until there is an agreement on those things with the EU, we will not be able to move them from Great Britain to Northern Ireland. There is the at-risk goods as far as customs is concerned. We do not know what the joint committee is going to say on that. Even when they do bring something out, we still have to find out how we get rebates on that tariff that we have paid.



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There is a huge concern about the systems. If we were doing this as a business we would be rolling out these fundamental IT structural changes over about two years. We have less than six weeks to get them done, and some of the systems will only be ready the week before the end of the transition period. You are talking about the Trader Support Service, the retail movement scheme—if it comes on—the customs declaration scheme that will replace CHIEF, and the Goods Vehicle Movement Service. Victor already mentioned the third-country FTA; we could end up with one foot in both, which would be great, but the way it looks at the minute we do not know where we are going to be.

On labelling, if we were to change labels usually in January, we would have them signed off and start printing them in August. We are now in the middle of November. We do not know what needs to be on those labels. On transit, retailers buy about £2.6 billion to £2.7 billion of Northern Ireland agri-food. As Victor said, we are 1.9 million people who feed 10 million. About 60% of that goes through the port of Dublin for just-in-time supply chains. If we cannot do that, there are availability and choice problems for Great British consumers.

What we are really talking about here is a fundamental change in how we do business. If there are delays and things that are prohibited, there will be less choice and increased friction. Friction means cost. You have to remember our Brexit campaign was a fair deal for consumers. The reason we put it like that was because Northern Ireland consumers have half of

the discretionary income of Great British households. Those who are least able to afford it will be hurt most.

Q1008 **Chair:** Indeed. That is very helpful. We are going to explore most of those issues in detailed questions that my colleagues are going to put in a moment. Thank you very much for that overview. Stephen Kelly, what are your members most concerned about at the moment, given where we are?

Stephen Kelly: The biggest concern is a lack of detail and very little time, as both Victor and Aodhán have said. The protocol brings new processes, systems and procedures. Many of those are still being worked out, some are just being unveiled, and some require agreement in the joint committee. If there was one message for the Committee to understand today it is that Northern Ireland's business community will not be ready for 1 January. Quite simply, it does not have the detail nor the time required. With all the will in the world, we will not get there in six weeks.

Our approach to the manufacturing community is that they make every best endeavour they can between now and the end of the year, and to be demonstrating that they are making efforts to be ready. The hope is that there is an agreement between the UK and the EU in terms of their future relationship. That will then inspire some sort of tunnel process, in terms of the joint committee and all those issues that remain unanswered or to be negotiated, which can be worked through, allowing us some grace at the beginning of 2021 where companies have demonstrated they have

tried their best and both the UK and the EU provide us with the comfort that goods will not be stopped in Scotland or Wales and that we can continue to trade as normal.

Q1009 Chair: As things stand at the moment, taking the issue of goods at risk, which is a matter for the joint committee to determine, you and your members have no idea what goods might be identified as being at risk and how they are going to be dealt with?

Stephen Kelly: We have had no conversations with anyone, either in the UK or the EU, in terms of what goods may be selected as being at risk for travelling from GB into Northern Ireland. There has been an SI laid in Parliament in terms of goods travelling from Northern Ireland into GB. That is the first phase of that process. We are content with that piece, but in terms of GB into NI, which is where the frictions will be most pronounced, we have had no conversations with anyone.

Q1010 Chair: We are six weeks out. Is it not really quite extraordinary that the joint committee—it is their responsibility—has not communicated what the arrangements are going to be to those who need to know more than anybody else, because you are going to have to make the system work?

Stephen Kelly: Yes. It is just one example of very many things that remain unanswered, which lead to businesses in Northern Ireland not knowing what to prepare for. There is certainly a difference of opinion between the UK and the EU about what could be viewed as being at risk. Those negotiations are taken into the future relationship conversation rather than the joint committee at this stage. Securing a deal this week



or next week between the UK and the EU will hopefully allow a process of concerted effort and work at the joint committee where we can bottom out those issues.

Q1011 **Mr Sheerman:** Can I just say what a pleasure it is to see such well-informed witnesses responding to our call for witnesses? I do not know if you are surprised that we have been unable to get witnesses from the Northern Ireland Assembly. Our team have tried and tried, but let us not dwell on that. I am very much involved: I am co-chair of the manufacturing group of MPs, and my constituency, Huddersfield, is involved in manufacturing. Forgive me if I put my first question to Stephen. How well prepared is the small and medium manufacturer who exports for what is or is not going to happen on 1 January?

Stephen Kelly: They are not very well prepared at all. InterTradeIreland, which is a cross-border body jointly sponsored by the Irish Government and the Northern Ireland Executive, has surveyed its quarter 3 monitor. It surveyed forums in Northern Ireland and said that only 9% of businesses feel that they are prepared, so it is single figures. That compares with 7% when the same question was asked for members of the Northern Ireland Chamber of Commerce. At the end of the summer, when we asked the manufacturing community in Northern Ireland—this was before some of the detail began to be unveiled—only 5% felt that they were prepared. More of a concern is that earlier this year 60% of businesses in Northern Ireland said that they were making Brexit preparations. In the last survey that had dropped to 39%.



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There is very good reason for that. The business community, just like Parliament, Government and everyone else in our community, has been dealing with the coronavirus pandemic. That is sucking up all the capability, capacity and capital in terms of our business community. Attentions are focused on a rescue mission in terms of their businesses and the jobs that depend upon them rather than focused on what comes on 1 January. They have proven during the coronavirus period that they are incredibly creative and resilient, and are able to be agile to respond to challenges. We are sure that, come 1 January, the same type of attitude will be deployed. However, it is a concern, given that this is such a fundamental change about how things travel from GB to NI and from NI to GB, that at this point in time at best 9% of business in Northern Ireland are ready.

Q1012 **Mr Sheerman:** Over a year ago I had the privilege of speaking at the Titanic centre, meeting a lot of people from BITA and manufacturers that we have a very good relationship with. I was getting the picture even then that uncertainty was actually affecting investment. We all know about the Bombardier experience. Could you enlarge on that? Has there been a steady lack of confidence in investing in Northern Ireland, or are people being more optimistic and continuing to invest in Northern Ireland?

Stephen Kelly: The coronavirus pandemic has changed the picture enormously for this year. In many ways we have written 2020 off from an investment point of view. The big investments that we have seen are



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largely in response to opportunities in terms of pivoting our manufacturing production to support the front line. We have quite a number of manufacturers that have moved to create scrubs for our hospitals, face masks and face shields, and contributing to the campaign to support the health service on equipment, et cetera. A lot of the investments have been around those sorts of things.

One of the big concerns—and Victor touched on it briefly in his opening remarks—is that we now have a perfect storm of EU customers and GB customers unsure about the status of goods from Northern Ireland. They are asking questions of our members: “Are you still allowed to supply to us? Will that supply be difficult or complex? Will there be additional costs or procedures that we have to do as customers?” For instance, Northern Ireland businesses will have to have an XI-EORI number. That is a unique EORI number that businesses in Northern Ireland will need to have. We have already begun to see some GB suppliers asking Northern Irish customers for that XI-EORI number, but at this point in time those numbers are not available. They will not be available until at least the middle of December. There is uncertainty from our supply chain and there is uncertainty from our customer base.

Q1013 **Mr Sheerman:** Can I push all three witnesses on that? That is very interesting. Here you are giving evidence. Where are you looking for strong support? Are you finding the Northern Ireland Executive being really on your side and being supportive in terms of your concerns and worries? If we write a report or we have influence on the Secretary of



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State, what sort of message do you want us to give Mr Gove and Lord Frost?

Victor Chestnutt: Government have been extremely slow on that EORI number. It is only about two weeks since I realised that all farmers in Northern Ireland would need an EORI number. We do trade from GB; because of our small family farms in Northern Ireland, we bring in a lot of second-hand equipment that is used in the UK mainland. To bring that in, you are going to need that EORI number. Just last Monday night we ran a seminar with Shanker Singham and Frank Dunsmuir, who have the contract for running the Trader Support Service. On Monday night we had 233 of our farmers joined into that webinar. When I was announcing it the week before, I had a meeting with 140 farmers in it. I asked people who had got their number to show their hands. There were five out of 140.

The word is just starting to get out there now. To get that number and to register for the Trader Support Service simply, that was supposed to be done by 23 November, to make it automatic and simple. 23 November is Monday. Government have not yet conveyed that information to farmers. There is a huge disconnect between Government and farmers on what we need. It is only now starting to sink in. While we felt that we were part of the UK and there was no difference, it is only now sinking in that the protocol means that we will be treated differently to another farmer on the mainland. We need this extra paperwork to get here. Given time we will get it, and that is what I was saying at the time. We are resilient; we



are not saying this cannot be overcome, but that is why I was saying we did need a honeymoon process.

Just to pick up on another thing that Stephen had said about the statutory instrument that is laid down in Parliament for foodstuffs. We are very concerned that that statutory instrument leaves Northern Ireland's back door completely open to whatever is the cheapest product awash in Europe to come from the south into the north, and into the GB market. We reckon we need to move to phase 2 to tighten those controls and safeguard the integrity of our product.

Aodhán Connolly: Going back to your original question there, we speak to everyone. We have spoken to CDL and the Irish Government, and we are in constant contact with the EU and the Northern Ireland Executive. We will be pragmatic about giving information and we will be pragmatic about our asks. The ask at the moment is based on the fact that Northern Ireland business and our Great British supply chains will not be ready in time for 1 January. I know there is some concern about the wording of this, but we need an implementation period. You can call it an adjustment period. You can call it the pink fluffy bunny period if you like; we do not care what it is, as long as we get that time to be able to move forward on the implementation of these changes. These are fundamental and structural changes to how we do business.

Q1014 **Mr Sheerman:** The pink fluffy bunny is going to remain with me for a long time. That is wonderful. Can I quickly go back to manufacturing? I mentioned Bombardier. That just-in-time supply chain is so precious in a



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complex area like aerospace or any engineering, auto-engineering or anything like that. Is anything being done at this late stage to support and aid that manufacturing sector?

Stephen Kelly: There are two things on that. One is the news that Spirit AeroSystems has purchased Bombardier is very good news. It has allowed some comfort to the workforce in particular. However, the aerospace industry as a whole is under deep distress at the moment, and the supply chain in Northern Ireland in particular is under deep distress in the absence of stuff being made.

Secondly, there needs to be an intervention from the UK national Government to protect that critical part of the UK economy. If I give the Bombardier numbers as an example, 10% of our entire exports are Bombardier's products or Spirit AeroSystems products. If we lose that business we lose a huge chunk of our exports overnight.

You asked who we have engaged with. We have shared an analysis with the Chair of the UK's command paper. In that, we asked 67 questions at the beginning of the summer. When we reviewed that a couple of weeks ago, 60 of those 67 questions remained unanswered. I am sure the Chair would be happy to put that document into your evidence pack. We have taken this challenge on. We have offered pragmatic solutions. There has been a direct response from the UK Government in terms of that analysis; the Trader Support Service is a direct response to the types of things that we were flagging, but those other 60 questions still need answering.



Q1015 **Matt Vickers:** Good morning. If we leave the transition period without a free trade agreement, how would you see it affecting Northern Ireland to Great Britain trade, Great Britain to Northern Ireland trade, and Northern Ireland to Ireland trade, if we contrast the three?

Victor Chestnutt: Probably only time will reveal that, but for Great Britain to Northern Ireland, we are in that customs union. We value being part of that customs union and being part of the UK. We would hope that trade from Northern Ireland to GB would remain. The issue we have is the at-risk products and whether we would have to pay tariffs for stuff that is coming from GB to NI. We have no definition of that at-risk product. That might be up to every individual to guarantee that it is not at risk of crossing over to ROI, but it is hard to see how that is done.

On the trade from NI to ROI, provided people want it to continue, it should continue, but if there is any sort of tit for tat or anything like that then we are very exposed because our product goes south. As I say, our milk goes down there. Can it go out in an EU trade deal? A lot of our milk is processed into powder there. A lot of the final destinations are Asia and Africa. Can it go out in an EU free trade deal, even though it is a product of Northern Ireland, because it is processed in the south? Our sheep go to the south. A lot of them end up in Europe, and some of them in the rest of the world.

We have this scenario where a lot of our agricultural produce is labelled UKNI. I feel that is a wee bit like how, as an Irish citizen, I can have two passports—a British one and an Irish one—but when I go to the airport I



would take out whichever one I thought was most beneficial. At the minute we are pulling both out, and you would never dream of doing that if you had a passport in each pocket. For UKNI, we need to be able to use NI, product of Ireland, or UK whenever it suits us, as such, to be able to make trade flow in all directions.

Q1016 **Matt Vickers:** Mr Kelly and Mr Connolly, if you were contrasting the three, where do you think the biggest and most specific impacts are?

Aodhán Connolly: It is less to do with the specific impacts and more to do with looking at it in its totality. One of the problems has been how the supply chain has been viewed. It is not an all-UK supply chain. It is not even an all-Ireland supply chain—we were talking about Ireland. It is an all-islands supply chain, so integrated are they. Even for that £2.7 billion that retailers buy of Northern Ireland agri-food, there will be either processes or ingredients that come from GB or the EU. A humble cottage pie has nine border movements north, south, east and west before it becomes a finished product. A bottle of Baileys has five border movements. All of this is where there is going to be friction, and where there is friction there is cost.

This does not just affect Northern Ireland consumers; it will affect the Northern Ireland consumer most, because we have the highest level of indebtedness and half the discretionary income of Great British households, but it will also affect Great British households as well, first in the fact that Great British supermarkets buy so much from Northern Ireland. About 60% of that goes through Dublin, so it can get just in time

to Birmingham, Bolton, London and everywhere else. If that is removed and that ability to have transit is removed, that means there are delays. If there are delays, there is less choice and less freshness.

As far as Great British households go, Andrew Opie from the British Retail Consortium is on record as saying that a no-deal, no-FTA Brexit with the EU is a greater risk to Great British households than the whole of Covid when it comes to the supply chain. I would tend not to look at things as A to B and B to C. I would look at it as a cyclical, circular, integrated supply chain across these islands. That is why we in the business community have never taken a preference for any border. What we have said is we want no borders because our supply chains are so integrated.

Stephen Kelly: One of the benefits of the protocol is that the trade on the island of Ireland will have no tariff, no quota, no rules of origin, and will remain as it is today. One of the benefits of the protocol is that the UK has sovereignty in ensuring that there is unfettered access for Northern Irish goods into the rest of the UK market. The Prime Minister is on record on video saying that if anyone asks for a form they should roll it up and put it in the bin or to ring No. 10. The big challenge with no FTA is the pressure that is brought to bear on GB into Northern Ireland. As Aodhán said earlier in his evidence, that moves the structures in the Irish Sea from being a paper border to a brick border. That is where the problems really lie.

A lot of the issues that we are exploring with you today will be resolved should there be a tariff-free, quota-free comprehensive free trade

agreement between the UK and the EU. Our focus remains on trying to ensure that happens.

Q1017 Matt Vickers: Looking collectively, if you were looking at the sectors that were more strongly affected, obviously we have representatives of three sectors, but where do you feel the winners and losers are in terms of different sectors?

Victor Chestnutt: There is no sector that is not affected. If you take our agricultural sectors, seed potatoes were mentioned. For the potatoes we grow in Northern Ireland, the local seed is produced in Scotland. For seed cereals, a lot of the cereals come in from the UK. Most of our grass seed comes from the UK. Until the UK gets third-country status, we cannot get SPS paperwork to bring that in. That is a big concern.

Northern Ireland's agriculture is more livestock-oriented. Some 40% of our sheep go south. A third of our milk goes south. Most of our beef is in the north and goes to the UK market. For our pigs, we have two main killing plants in the north. In one of them, 50% of their pigs come from the south. Those enter the UK market. They never enter as British pigs. There is always that distinction made of pigs in the north and pigs from the south; they are always a product of ROI but they are killed and processed in the north. For poultry, we have a duck processing plant straight on the border. The eggs are produced in the south. They come up to the north to be reared and fattened as ducks. The plant is virtually on the edge of the border. They then go just over the border to be killed, and the UK is their main market.



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There is no sector that I could say is safe. There are sectors that might benefit if the UK had no FTA with the EU; your UK lambs could not into Europe where the big demand for lambs is, and ours could go south and go into Europe. There might be a spinoff of a benefit there, but it is difficult to see which sector is going to win and which sector is going to lose.

Aodhán Connolly: If I take off the NIRC hat and put on the Northern Ireland Business Brexit Working Group hat for a second, we get full turnouts at all of our meetings from the CBI, the IoD, the Ulster Farmers' Union, the FSB, the Northern Ireland Chamber, the Northern Ireland Food and Drink Association, the Northern Ireland Meat Exporters Association, Manufacturing NI, Derry Council, the Northern Ireland Grain Trade Association, the Mineral Products Association and Logistics UK, and I am sure I have left someone out. About 85% of all business in Northern Ireland is coming to those meetings and being represented at those meetings, quite simply because this is fundamental change to how they do business and they have grave concerns.

Stephen Kelly: We have found with manufacturers that they are already beginning to change their supply chains. If there are issues and complexities GB to NI, they are looking at other routes and other locations. The food sector is obviously the most impacted. In the last 24 hours there has been a lot of commentary around an issue around second-hand vehicles bought in GB and brought to Northern Ireland. The biggest challenge that we all collectively have—and it is a job for

Parliament as well as Government—is where the protocol interacts with the consumer, whether that is food, cars, equipment, machinery, et cetera. That is the biggest challenge that we all collectively have to avoid.

Q1018 **Matt Vickers:** Looking at a more positive, forward-looking note, what do you think are some of the biggest single things we can do to mitigate some of the tougher impacts?

Stephen Kelly: If the EU and UK agree a future relationship, that removes quite a lot of the wrinkles that are in the system at the moment. That will ensure that we have a degree of trust that can be built upon to remove these problems, particularly in January, February and March as we move into next year. The business community will get there with the detail and with that time, but in order to ensure that happens, the relationships between the UK and the EU need to improve.

Q1019 **Matt Vickers:** What would you see as the biggest mitigation if the FTA was not agreed?

Stephen Kelly: The biggest mitigation is that somehow we need to find out how we manage that border in the Irish Sea. NI into GB is a UK responsibility, but the UK has agreed to act as the agent on behalf of the EU from GB into NI. There needs to be some agreement about how that happens. The EU will not be present in Northern Ireland. The EU will not have direct sight of what happens at that point. We need to ensure the GB-to-NI route is made as frictionless as possible, and that will be difficult without an FTA.



Victor Chestnutt: We as an agriculture industry have been looking at every sector of our industry, along with the Northern Ireland Food and Drink Association. We have come up with a proposal on how we would tackle every product. Undoubtedly there will be some scenarios that we have missed, but we have a proposal that could mitigate some of this if it was accepted. It was really about protecting the integrity of the food produced in Northern Ireland. One of the proposals on beef is that at the minute there are 50,000 tonnes of beef coming from ROI into Northern Ireland to be processed to go on to the UK market. The problem there is that the cheapest beef floating about in Europe could start coming there. The proposal is that "Killed in Northern Ireland" would become a qualifying good, which means they would all go through a plant with DAERA supervision and DAERA vets, and they would be ROI cattle.

On the milk side of the business to mitigate the milk that goes south, we were working on a mass balance thing, i.e. if you send a million litres of milk down from the north to the south to process, an equivalent amount of product could be a qualifying good to go over into the UK market. We have looked at every sector, and that paper is available.

Q1020 **Stephen Kinnock:** Thank you very much to all of our witnesses today for some very useful and very sobering analysis of the situation that you find yourselves in. I wanted to first focus on this issue of composite loads. Clearly one of the big questions is how you identify what is an at-risk product and then register what is at risk and what is not, when you are dealing with composite loads that could contain thousands of different



product lines? Is there a precedent for identifying the issue of composite loads and what is at risk and not at risk? Does this happen anywhere else in the world? I am just trying to figure out how you would even technically do this.

Aodhán Connolly: There are two separate issues here. There is what is at risk for customs and then there are things that are products of animal origin, which need those export health certificates. They are two separate issues. When you are talking about composite loads, 90% of things that are going across the Irish Sea from Great Britain to Northern Ireland are composite loads. About 70% of the value of everything that is going over from Great Britain to Northern Ireland is for retailer shelves or is retail products. Yes, it does happen, though usually not in the same way. If you look at things going EU to GB, there will be fewer products on that and then they will go to distribution centres, be put into different lorries, and those lorries will go to shops and over to Northern Ireland as well. That is where you get your composite loads.

On the at-risk stuff, all of that—it does not matter what you put on that—will have to have a customs code. That needs to be put in. The Trader Support Service removes some of that friction. Remember that it is untested. There are concerns about whether it will be ready and whether it will be able to handle the capacity. We are talking to the TSS guys; we know them of old and there is a great working relationship there. The problem is the timeframe to deliver that.



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We are waiting for two things when it comes to at-risk goods. The first is whether or not we get a FTA. If we get a zero-zero FTA, that removes some of that customs friction. There will still be some paperwork that needs to be done, but it will not be as heavy. The other thing is the deliberations of the joint committee. We are in constant contact with the EU side, the UK side, and even with the Northern Ireland observers who are there. What they have said is they will not be bringing anything out until they have a complete package to give to people, because they do not want it torn apart bit by bit. You can understand that. We in the business community need to show that the faith that we have put in that process has been worth it. We need to see those common-sense decisions coming from it.

On the products of animal origin side, this is where you can have up to 400 in a supermarket load, but remember that it is not just about the supermarkets. For all of the pet-lovers in Northern Ireland, those pet foods will need to have a product of animal origin. Some of the pet stores, the big guys, will have more EHCs needed than a supermarket load. What we can do to mitigate that is to have either a veterinary agreement, the same as New Zealand has, which means there is 1% checks, which for Northern Ireland means around seven lorries per day that would be checked. That is on the Christmas wish list; you would need a good fairy to deliver that.

On the other side, there is the retail movement system that has been talked about. That would mean that there would be an audited and



certified supply chain, where we would give some evidence to the EU to show how we sell, where we sell, that we know what we are selling and that it is not at risk of going into the Republic of Ireland or the EU. In return, the EU would lift that mandated need for an export health certificate. That is still under negotiation. It has been in negotiation since the summertime. The big problem here is the politics of the FTA; although they are supposed to be separate but parallel negotiations, there has been a crossover. The machinations over the FTA have slowed up those deliberations in the joint committee.

Q1021 **Stephen Kinnock:** Victor, is there anything you would like to add around this issue of composite loads and what is at risk and what is not?

Victor Chestnutt: The at-risk one is very difficult to see how that is going to play out, because basically anything that comes over into Northern Ireland is at risk of going into the south. We are hearing now it is probably going to be up to the individual farmer to give evidence that that product is for his farm and for his business. On the composite loads, yes, if we buy an animal in the UK and it comes in on a lorry with others, the problem is, if one person's paperwork is not right, that truck will not arrive.

Q1022 **Stephen Kinnock:** It seems to me that even if there is a deal in the next week or two, it is simply impossible that you will get all of this stuff sorted out by 1 January. Should we just call a spade a spade here?

Victor Chestnutt: That is why we need that implementation or honeymoon period. As you said, call it what you like. We need that. We



are in a transition at the minute but we do not know what we are transitioning to. We need to find out what we are transitioning to and then get time to transition. It is not that we are against transitioning, but we need to know what we are going to. At the minute we cannot move because we do not know where we are going.

Q1023 **Stephen Kinnock:** It is always good to hope for the best but plan for the worst. If we get to 1 January and there is perhaps a deal but there is not a plan in terms of how you might just get a bit of extra time, you could end up with goods coming from GB to NI. Where are we looking at the physical bottlenecks that will take place? Are they likely to be in Scotland and Wales, where you could just end up with lorries being backed up because they cannot get over into NI, or is there a contingency plan in place for this worst-case scenario where you do not have this little implementation period to help you to transition to whatever it is that has been agreed? How will that look in physical terms in terms of the actual lorries that are trying to bring this stuff in?

Aodhán Connolly: What happens on day one is the biggest concern that there is among businesses. The commitments that the UK Government and the EU have given to the people of Northern Ireland mean that we would hope there is some sort of flexibility that could be agreed on day one. If there is not, there are going to be customs checks and paperwork checks before they get on the ferry. That is in Scotland or Wales, as you rightly said. Then again, with products of animal origin, you will still have



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checks in Northern Ireland, so you are going to have a bottleneck in both ways.

There are things within the Northern Ireland protocol that are fail-safes on this. Article 16 and annex 7 of the Northern Ireland protocol allow for unilateral measures to be taken by either side to allow the free flow of goods. That consumer welfare issue would be one of those things that would trigger it. However, that is not a long-term solution. We need to get to that long-term solution. It is not something that businesses can write a business model or a business plan on. The fact is that retailers or any business will want to stay within the confines of the law. There is no nod and a wink here. There is no good customs fairy or good SPS fairy who is going to just wave you on.

On our side for businesses there needs to be a show that we are making best efforts to deliver what is agreed, but the reciprocal to that, from both the EU and the UK Government, is a flexibility to allow trade to continue to flow, and that is a very simple ask. It takes a lot of political will to make it happen, but our big plea to the politicians, to the Prime Minister and to Vice-President Šefčovič would be to think of the consumers and households across Northern Ireland for whom this is a standard-of-living issue.

Stephen Kelly: The beginning of the year is going to be really ugly. It is going to be really bumpy. It is going to be really difficult. Brand new, untested, first-in-the-world-type systems applied on a customs border within the territory of a single country is going to be difficult, to say the



least. There is a responsibility on the UK to try to make that work, but there is also a responsibility on the EU to ensure the protocol works and that it sticks. If the approach of the EU in January, February or March is not one of being supportive of the Northern Ireland business community and is not one that is in the interests of the Northern Ireland consumer, the protocol will not work and it certainly will not stick. Although it may take four years before the Northern Ireland community has an opportunity to vote on whether it wants to remain within the protocol provisions or not, we have the ability to make this Brexit issue a recurring nightmare for the EU and the debate that is ongoing within the UK for the next number of years to come.

The EU will not want to be in that position itself. The reality is that it is a joint signatory to this protocol. The reality is that it has responsibilities there as well. Selling a lasagne at an Asda store in Strabane that may make its way into County Donegal will not pollute the entire EU single market. There is no reason why flexibility cannot be shown, particularly for those retail goods, particularly as we know the UK, certainly on 1 and 2 January, will be aligned with EU rules anyway. We hope that the UK and the EU can show the flexibility required, knowing that we have made every effort that we can, with the information that is available to us, to ensure that businesses are ready and to ensure that the beginning of 2021 is not as bad as it potentially could be.

Q1024 **Joanna Cherry:** Good morning, gentlemen, and thank you so much for your time. It is extremely helpful to us. I want to ask a wee bit more



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about the sanitary and phytosanitary checks that will need to take place on goods coming from Great Britain to Northern Ireland. As Aodhán said, they will need to take place at the ports in Northern Ireland as the goods arrive. Last week, we had evidence that several hundred HGVs pass through the ports of Belfast and Larne every day of the week. I think you said earlier, Aodhán, that up to 70% of wholesale and retail goods in Northern Ireland come from GB. That is the background to the letter that we have talked about that was written by the First Minister and Deputy First Minister of Northern Ireland to the British Government and the European Commission about the concerns and about the threat to the continuity of supply of food products primarily, as well as other products.

Mr Chestnutt, you mentioned that there is no trader support scheme for agri-foods. That is one example of why the FM and the DFM in Northern Ireland are so worried. Can I ask each of you to elaborate upon why it is that the First Minister and the Deputy First Minister, as you say from such different sides of the political divide, have joined together to express concern? What is it exactly that they are worried about happening because of the lack of progress in the joint committee in terms of this continuity of supply of agri-foods?

Aodhán Connolly: All five of the main parties, and the minor parties, in Northern Ireland have shown concern about this. We are very lucky in the Northern Ireland Business Brexit Working Group that we have very good relationships with the five main parties. They send political representation and we meet about once every six weeks. If you



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remember, the reason the Northern Ireland Business Brexit Working Group came together was when the withdrawal agreement was going through Parliament last December and amendments were put down. We knew that the amendments were not going to pass but those amendments were to break the narrative that Northern Ireland was sorted under the Northern Ireland protocol, and it did work.

From then we have had the parties come together and work with us. You will have noticed that there have been many questions across those parties in the House of Commons and in the Lords around the protocol in Northern Ireland and trade and goods under the Northern Ireland protocol. As far as the letter is concerned, we honestly do not know what the reason or the actual push was. We know that both the First Minister and the Deputy First Minister were on a call with the retail CEOs about a week beforehand. They were very blunt and frank about what the challenges to continuing to supply Northern Ireland with choice and affordability were. We have had some really good engagement with them. We have just commissioned another survey of businesses about preparation and concerns they have so that we can give it to the Executive, so the Executive can stand up and give us support again.

We have said that the biggest tragedy in this was that, for three years, we did not have Northern Ireland Committees giving the level of scrutiny that this Committee has given. We now have that. It is now about the parties standing together. There is a coming together of the parties on



this quite simply because there is a realisation that, in the timeframe, we will not be able to get what we need.

Q1025 **Joanna Cherry:** That is very useful background but, to focus my question, what I am really interested in is what impact there will be on this food supply chain if full third-country sanitary and phytosanitary checks are imposed at the ports in Northern Ireland. What kind of impact will that have on the supply chain?

Aodhán Connolly: There are two main things: choice and availability. There will be delays and, if you are delayed, it is not that you have missed the boat by 20 minutes or even that you are getting the next boat in six hours; it is that you have missed over 24 hours because that lorry, because it is a composite load, will go to a DC—a distribution centre—and there will be a time to be picked for a particular shop to go out. If you miss that, whatever is on that lorry does not get to that shop in time. That leads to choice and availability issues. We already have 18 hours less shelf life than places like Bolton or Birmingham, quite simply because of geography.

On the other side, it is cost and those EHCs. The lowest I have heard is about £56 and the highest is about £200. If you are talking about a composite load with up to 400 on a supermarket load and many more on a pet food load, you are possibly talking about tens of thousands of pounds on top of the normal cost. You have to remember that retail is a



very high-volume, low-profit-margin industry. That means that we have little room to absorb any of those extra costs, but neither does the Northern Ireland consumer with, as I said before, half the discretionary income of Great British households.

Q1026 **Joanna Cherry:** I read in the IIEA paper that something as simple as a ham and cheese sandwich could require two separate health certificates. Is that right?

Aodhán Connolly: It would depend on how it was shipped. It could need one certificate. The way EHCs work is that, if they are all packaged together, then we would need one or two EHCs for the two different products within that, the cheese and the ham, but that would do the full load. The problem is that, when you are going across the Irish Sea, you may have 10 of those sandwiches and 20 of another sandwich and 30 of another sandwich, and that is how the export health certificate load builds up.

Q1027 **Joanna Cherry:** Mr Kelly and Mr Chestnutt, would you like to come in on this question of what the impact will be if there is the imposition of full third-country SPS checks at the ports in Northern Ireland?

Victor Chestnutt: Our understanding was that there would be a dedicated agri-food movement assistance scheme. Up until now, we have not seen sight of this so it is still to be set up, basically. We have six weeks to go and we were promised that there would be a dedicated agri-food movement assistant scheme to work with sanitary and phytosanitary



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certificates but it is not even set up yet. That is why we are saying we need this honeymoon period.

On the number of checks you are seeing, once the UK gets its third country status, a new country to the EU can get up to 30% checks. It would make no sense at all to have 30% checks. We are not some other country in the world where our food quality is unknown. We are coming from the same standards. We should be treated the same as, for instance, New Zealand, which has built down to a 1% or 2% check there. If it is 1% or 2%, we will be able to handle it. If it is 30%, it will create massive backlogs and disruption. We have the composite load things but, even in a load of beef, say, going to the UK or a load of all one product, the infrastructure is physically not there at the minute to do 30% checks. We are only starting to get infrastructure set up in Northern Ireland and there is no way it will be ready for 1 January. I would suggest that you would probably have the same problems in your ports in Stranraer or Cairnryan and in Wales and Liverpool. Everywhere there is a port, there is going to be a bottleneck.

Q1028 Joanna Cherry: We were told by witnesses last week that the work on infrastructure at the ports in Northern Ireland has not even started yet and that it will take six months for there to be any infrastructure there. Is that your understanding?

Victor Chestnutt: Yes. At the minute, if we are moving, say, livestock to GB mainland, we have a portal office that we have to go through. That has been the case down through the years. I breed some pedigree sheep



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and you always go there once or twice a year when you are going over. It is not designed for this amount of traffic. It will be completely swamped. It is just one small office that will do a tiny bit. It will never be able to handle the amount that this would cause.

Stephen Kelly: In answer to some bits of your question that have not been answered so far, as you rightly say, the infrastructure in Northern Ireland will not be ready and fully prepared for probably at least another six months. There are temporary provisions being put in place. One of the contractors for one of the entry points has a deadline of 11 January to produce some temporary accommodation, and that allows time to continue to build the permanent infrastructure beyond that point.

Secondly, we know in conversations with our Department for Infrastructure and the Minister that, for instance at Cairnryan, as I am sure you are aware, there is no physical space. They are looking at the Castle Douglas airfield as a temporary holding point for some vehicles there at that point. All this changes if the UK and the EU agree, for instance, an agricultural agreement.

What does that mean in practice? Currently, about 900,000 vehicles travel from GB into Northern Ireland and from NI into GB. The risk at this point in time is that all 900,000 loads will have to be inspected. With an agricultural agreement, that brings it down to between seven and nine per day. Seven to nine vehicles per day makes life a lot easier than having to check a full 900,000 across a year.



Q1029 **Joanna Cherry:** You mentioned the contingency plans and the contractor who has been engaged to build something at the ports of Larne and Belfast. I believe there is a third smaller port as well.

Stephen Kelly: Warrenpoint.

Q1030 **Joanna Cherry:** What is envisaged in the contingency plans? Is there infrastructure being built at all three? What sort of infrastructure is it? Do you have any idea to what extent that will ease the problem?

Stephen Kelly: These are full border control posts. There are drawings available and we will share those with the Committee team so that you can see what those look like in terms of the final physical infrastructure. There is a system in place to manage until that is ready. That involves some temporary buildings and a system within the Department of Agriculture that either Victor or Aodhán will have better sight of than I would.

Q1031 **Joanna Cherry:** To what extent do you think that these temporary plans that you have seen will improve the flow of agri-food goods if there is not the kind of agreement that you have just mentioned?

Stephen Kelly: Maybe Aodhán or Victor can come in at that point because it is specifically in and around the food element.

Q1032 **Joanna Cherry:** I am interested in the extent to which any contingency plans will improve what will otherwise be the significant tailbacks that you have described.



Aodhán Connolly: It is all going to depend on the flexibility that comes from both the EU and the UK Government. There will be a burden on business no matter what happens. No matter whether we get an FTA, there will continue to be a burden. All the contingency plans do, as far as the SPS checks and the customs checks are concerned, is that, instead of having brick buildings you would have mobile buildings. That is where we are at the moment with this.

Again, none of this will be decided until the FTA is completed. What we feel is happening at the moment is that the political will and political effort, quite rightly, are going into the free trade agreement. Because of that, neither side wants to give flexibilities on Northern Ireland because it is going to be seen as a leverage to the other side. There is a game of football going on, and Northern Ireland is the football.

After that FTA is concluded and that tunnel breaks, we are going to see another tunnel where the joint committee and the specialised committee will be given a little more of a leash out from the EU and the UK to make those changes. Unfortunately, I do not see there being any certainty for business until the FTA is concluded and then those further Northern Ireland negotiations can happen.

Q1033 **Nigel Mills:** That was quite an optimistic note from Mr Connolly at the end there, with an expectation of a process that fixes all of this if a free trade agreement is sorted out. Am I right in saying that it looks like most of the protocol is written assuming that there are no tariffs or quotas between the EU and the UK? We would then just have to finesse how we



manage, with Northern Ireland being half in one customs area and half in another. Without a free trade agreement, this really gets quite hard to fix because there is so much revenue at stake on both sides. Is that a fair summary of where we are?

Victor Chestnutt: Yes.

Aodhán Connolly: The way I have said it before is that the FTA removes some of the customs friction, but without an FTA it is the difference between a paper wall and a brick wall down the Irish Sea, because the complexity of customs is quite burdensome.

Q1034 **Nigel Mills:** It would be quite complex, even with a free trade agreement, because we would have to get through all the rules of origin stuff and understanding how goods from outside the EU and outside the UK can move across that border. That is a much smaller volume of trade, is it not? It is something you can manage on a risk basis rather than it being millions of pounds a day or something.

Aodhán Connolly: It is but, when you look at things like cumulation—and that sort of diagonal cumulation would be best in practice—I do not think the EU is in the space to do that. I hope that I am wrong and I hope that I get to be corrected on that. You are right that rules of origin is a smaller problem in all this, especially for GB to NI. However, it is still a significant problem, especially when you are talking about things like the manufacturing industry.

Q1035 **Nigel Mills:** Your message to the powers that be would be, "We want the



free trade deal with no tariffs and quotas, and then we want you to work together to produce some sensible rules that tackle the real risks of revenue loss rather than trying to tackle everything and trying to give some of it back afterwards. We all roughly have an idea of where the risky stuff is. Let us work out how we address that, not try to get everything in and then refund bits afterwards”, which is a crazily inefficient way of going about things, is it not?

Aodhán Connolly: The way that we have looked at it is this. The Northern Ireland protocol is not perfect, but it is still better than no deal. In the same way, any FTA that we get now, whether it is a skinny or skeleton FTA, is still better than no FTA. The reason we say that is that it is easier to have the starting point of something legally agreed and to add to that than it is to start from scratch again.

Look at other borders that the EU has. Look at the Swiss border, for example. It has taken them 40 years to get to where they are now, and 210 pieces of legislation underpin that EU-Swiss relationship. They have built upon that over time. If there is an FTA, it allows for further things to be built on it; it allows for further negotiation and there is a basis for a relationship. An FTA is very important to us.

Q1036 **Nigel Mills:** If we have the FTA, the risk of goods from outside the EU and outside the UK being routed into the single market via Northern Ireland in any great scale is extraordinarily low. Just the costs of transport would be ridiculous. We might notice if the whole EU supply of bananas suddenly turned up in Northern Ireland, was trucked over the



border into the Republic and then was trucked back across to the mainland. There really is scope here for risk-focused work, looking at things that could be trying to exploit the border rather than trying to assume that there is a much higher level of risk than there really is.

Aodhán Connolly: That is exactly what the retail movement scheme is supposed to do, and that is being discussed at EU and UK levels. We have to give thanks to Defra for bringing that forward and for going to bat. There is already a highly regulated, certified supply chain there for retailers. There is already an evidentiary burden on us to show where things are going and where they are sold. It is not as if we are trying to reinvent the wheel here. If we can show the proof of where we are sending stuff and where it is getting sent and that can be checked once a quarter or once every couple of quarters to the satisfaction of the EU, it would make things a lot easier.

Q1037 **Nigel Mills:** Can I switch to the other thorny issue: goods coming from Northern Ireland to GB? We are told that should be unfettered, and yet the agreement last year was that there would be a need for export declarations, I think because the EU customs rules insist that you know what has left your customs area. It agreed that could be done at the Irish Sea rather than the Irish border. Where will we end up on that? Is there a scope for some compromise where we can collect some data on what is being moved across from NI to GB but we do not need full declarations for everything, are we just going to unilaterally say, "We are not doing it so you cannot have it", or will the EU try to insist on the full works? Is



there a way out of this that keeps everyone happy as well?

Stephen Kelly: From a manufacturing perspective, we do not believe that these are required. However, we are not bothered that they are being asked for. It is essentially just another couple of pulldown fields on a menu. In fact, it could be added to the booking system for ferries, for instance. From a practical and cost point of view, it does not really bother us so much. We understand the issues in terms of identity and sovereignty, et cetera, but, from a pure practicalities point of view, we are not that worried.

Goods travelling from GB to NI are beginning to take on a different form outside of even those exit summary declarations. We have already signalled the fact that Northern Irish businesses will need an XI-EORI number. There are differences in terms of VAT. Victor has talked about the concern from our agricultural community that Northern Ireland could be used as a back door into the rest of the UK, which will require some additional controls at some point in the future. We certainly would want any friction, whether there is an exit declaration or not, to be removed, but what you are beginning to hear from certain parts of the Northern Ireland business community is that some frictions may actually be welcome, because they protect the integrity of our products and our goods and avoid Northern Ireland being used as a back door.

Q1038 **Nigel Mills:** What you are saying is that, rather than make a separate export declaration on a customs system, if you could have something on the ferry booking system that said, "We are moving X quantity of this",



that data could be sent off to the EU for whatever purpose it wants to use it for. That would seem to you to be a system that could work without adding much in the way of burden and effectively get both sides happy with the situation.

Stephen Kelly: Yes, absolutely. I have not spoken directly to them but we have colleagues in logistics as part of our working group and they have spoken to the ferry companies. They have said that, if they were asked to, they could make amendments to their systems to capture some of this data and it would be easy enough for them to do.

Q1039 **Nigel Mills:** That sounds like a good British fudge: an export declaration that is not really an export declaration but happens to declare all your exports in a way that can be used. That seems to be a useful way forward.

You are saying from your point of view that you do not really mind: if you have to do this, you have to do it; it is not "die in a ditch" territory on this one. You would rather we did not unilaterally ignore that requirement if that is going to sour the relationship. That is not your big ask to fix things from 1 January.

Stephen Kelly: I have no one in business coming to me and saying that this is make or break for them in terms of completing a form to send stuff from here to GB. They already do that when they book items on to a ferry. They already do that when they are booking a logistics firm. We will have the responsibilities of GB into NI so people know and understand their commodity codes by that stage, et cetera. We would



prefer if it was not there, of course—we want things to remain as they are today in that direction—but, if it is required, it is not a deal-breaker for us.

Aodhán Connolly: Adding to what Stephen is saying, it might be worth pointing out that this is not a full export declaration. What is needed for NI to GB is an export summary declaration, which is a much smaller document.

Victor Chestnutt: On agri-food, what we are concerned about is somebody setting up a brass plate in Northern Ireland, bringing goods from the third world into the EU, taking it that there is a—*[Inaudible]*—deal with the EU. All the Brazilian beef from JBS, which owns Pilgrim's and Moy Park, could come into Northern Ireland, could be processed, be seen to be in free circulation in Northern Ireland and then get straight into the GB marketplace.

We do not think that would be acceptable at all. It would not be counted in any free trade quota that GB has been offering to the rest of the world. It would mean that the quota that is offered to the rest of the world is completely meaningless if you can have an open back door. That is where we are very concerned about the qualifying goods and qualifying business. That is what the NIFDA proposal addresses.

Q1040 **Nigel Mills:** I assume we would notice if someone moved huge quantities of stuff in Northern Ireland to service the GB market. That would be a large plant that would turn up. It would not be a couple of cowboys in a

shed somewhere doing that.

Victor Chestnutt: Yes, but it could displace it. At the minute, a lot of carcass beef slaughtered in the UK mainland comes to Northern Ireland for cutting up and processing before going back to the UK mainland. That beef could replace that, so it would not be as noticeable.

Q1041 **Nigel Mills:** We would have to watch that. It is not just the problem of getting it across the border into the EU. We need to get them happy and we need to make sure stuff is not coming the other way and causing us more problems.

Victor Chestnutt: Yes.

Q1042 **Dr Wallis:** Thanks to the witnesses for coming today. It is a very interesting session. I am going to ask about the system that will provide tariff rebates to traders when their goods remain in Northern Ireland. Mr Kelly, what progress have you seen towards establishing such a system and when do you think it will be ready?

Stephen Kelly: None whatsoever. We do not have any sight. We have not had any conversations. We do not even know who is working on it. The assumption we are making is that, should a free trade agreement be established between the UK and the EU, that problem would largely disappear. At this point in time, we have had conversations with officials on a raft of areas but this area has not been flagged or touched upon at all at this point in time.

Q1043 **Dr Wallis:** Mr Connolly, is that the same for yourself? Have you not seen

any progress, or is it different from your perspective?

Aodhán Connolly: No, Stephen and I sit on the same group together. We have heard nothing from the UKG and we have heard nothing from the EU on this. It is to be decided by the joint committee and it is going to be one of the raft of things that comes out when they make their deliberations.

Victor Chestnutt: I concur with that. That is a concern that we have. As I mentioned earlier about second-hand machinery coming to Northern Ireland. If tariffs are to be paid on that to be collected back, it is a huge cost to the business. We have no idea what length of time that would take and how much paperwork that would take. Ultimately, it will end up with the consumer in Northern Ireland and the farmer in my end of the business. If you take a second-hand tractor yard with 50 tractors in it, costing 50 grand each, even if the percentage tariff is quite low—say below 7%—it is still a huge amount of money for a trader.

Q1044 **Dr Wallis:** What wider problems do you see for a dual tariff system on businesses in Northern Ireland? Apart from this system of having to claim back rebates, are there wider issues that you can foresee?

Victor Chestnutt: We have not had sight of how we would get anything claimed back. We are completely in the dark on this one.

Stephen Kelly: The big challenge is the cashflow issue. We already know, because of the response to the coronavirus crisis, that businesses have been using their own money to try to sustain their business and



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survive and keep people employed. The available capital is quite low. If that is tied up in some sort of tariff rebating system, that becomes a big challenge for us. Outside of that, we have had no sight because we have had no conversation about that.

That is not a criticism, just so we are clear. Everybody in the UK has been trying to put all their resources into defeating the virus. Even an organisation as large as the UK Government have had to move people and staff into that response. For instance, in the first half of the year, the people that we would have dealt with in terms of implementing the protocol have been moved off and on to coronavirus issues. That meant that we have lost two or three months at the beginning of this year and everyone is trying to play catch-up at this point in time. That is happening in Government, business and the wider society.

Q1045 Sally-Ann Hart: I want to ask some questions about the IT systems that exist and that you have put in place. Apparently, there are about 10 critical IT systems that are needed at the GB-EU border for the new customs formalities, whatever they are. Progress has been made on some of these. Some are existing systems that have been improved, others are new and some are still being developed. Are you confident that the new IT systems will be fully functional by 1 January?

Aodhán Connolly: The rollout of the systems will not be done until the week before. There is the customs declaration system, the Trader Support Service, the retail movement system, if that gets the EU go-ahead that has been asked for by the UKG, and the GVMS, the Goods



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Vehicle Movement Service. All of these have to work in harmony. All of these have to be easy to interface for businesses. Remember that this needs to be understood from the freight forwarders to the guy who is doing the customs code inputting. There are a lot of cogs that could go wrong in this machine.

Like I said, usually, if we were rolling out this sort of IT infrastructure, it would be phased in over a two-year period, not in a week; 18 months to two years is about usual. There are concerns about whether it will all be ready. That is no criticism of the people who are working on this. We are in contact with the TSS guys, HMRC and everyone who is working on this, and we can understand their frustration at trying to get everything done in time. By the same token, business needs it to work. There are concerns that it will not be ready.

There are also concerns about what happens if it goes wrong. It is not enough that it has to work. If you have a couple of hundred thousand customs codes going through the systems every day, you are probably going to get 5,000 or 6,000 error codes coming up. How is that dealt with? Who is the person who is going to deal with it? What happens if you cannot get a resolution to that? Remember that a lot of these loads, especially when you are talking about retail, are just in time. We do not have warehouses any more; they are simple distribution centres.

The short answer is that we are very concerned. That is one of the reasons why we are looking for the implementation or adjustment period, to make sure that there are no balls in the air that fall down.



Stephen Kelly: Aodhán has largely covered it, but I would add systems that are internal in companies themselves. For instance, we heard just yesterday from some accounting colleagues that, because of the VAT changes, there will be a requirement to change some of the accounting systems within businesses. Some of those are off the shelf. Some of those are bespoke to individual firms. The complexity of this goes beyond what Government deliver. It actually goes down into a company basis as well and that will require some adjustment.

Q1046 **Sally-Ann Hart:** Have you had feedback from manufacturing businesses about the progress that has been made towards the internal business systems needing to tie up with the EU-GB border IT systems?

Stephen Kelly: We have had feedback that they understand that there probably will be a requirement to make adjustments but they do not have the detail to adjust it yet. That is the challenge.

Q1047 **Sally-Ann Hart:** Presumably, whether it is internal or with the IT systems that are existing, new or being developed, none of these have been tested yet.

Stephen Kelly: Not that I am aware of, no. There has been some testing to CDS and the reports that we have had back from colleagues in logistics is that it works, it looks good and it seems to be seamless. It is about how that now interfaces with all those other systems that Aodhán mentioned.



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Aodhán Connolly: There is one thing you need to be aware of on this. It is not just about the systems. It is about those people who have fallen through the cracks in this. I am thinking specifically about e-commerce. All UK VAT-registered companies have been sent a letter to get an EORI number. What about if you are a sole trader, if you are a non-VAT registered company? I am thinking about people who use selling platforms such as Amazon and eBay for that e-commerce. There is a real black hole where there should be guidance on this. It is not just about the big guys. It is very important that that is taken care of but, by the same token, the supply chain is only as secure as its weakest link. We need to make sure that our suppliers and the e-commerce guys are being looked at too, and I am not confident that that is happening at the moment.

Victor Chestnutt: We have concerns if things are not ready on day one. As you say, our produce is something that cannot wait for computer glitches or anything out there. We are just in time. One thing that we have not touched on today is the trade that we have going through Dublin Port. We have much less control over what systems are going to be put in place down there. So much of our agri-food goes out to the south-east and south-west of Ireland, where the big mass of the population is. It would be a huge disruption if we cannot continue to use Dublin Port.

Q1048 **Sally-Ann Hart:** In the farming industry, maybe EU IT systems will still need to be used, rather than new ones.



Victor Chestnutt: We just do not really know at the minute. It is the not knowing and the uncertainty. That is why I keep coming back to this honeymoon period, this implementation phase or whatever you want to call it, which is definitely needed.

Q1049 **Sally-Ann Hart:** There is a bit of a question mark over all that area.

Victor Chestnutt: Yes.

Q1050 **Dr Whitford:** I would like to start with a question about labelling. It was referred to earlier that, normally, any change in labels would be signed off at least six months in advance. Looking both at Northern Ireland goods and GB goods coming to NI, we have heard that there will be a new produce mark for GB that replaces the CE mark, and that there might be a specific one for Northern Ireland that would add an NI. Does that give you concerns in terms of the change of labelling, the fact that that labelling is going to mark out NI on its own and whether producers in GB will think it is worth the hassle if they are manufacturing, in particular, pharmaceuticals or other things, to have a batch that has this specific NI mark on it?

Stephen Kelly: The issue on labelling has both a business and a consumer impact. I will let Aodhán pick up on the consumer side. You are correct that, for general manufactured goods, there is a new standards system, UKCA. As part of that, there will be a UKNI identifier. However, because Northern Ireland's goods can freely circulate in the EU's market, provided we get a product sign-off from an EU notifying body, or indeed if we port our certificates from a UK body to an EU body and apply the

principles of unfettered access, it means that our businesses in Northern Ireland can achieve the CE marking and those goods will be recognised in the rest of the UK marketplace.

This is one of the benefits of the protocol in that, if a firm in Scotland, England or Wales wanted to sell goods to the EU as well as within the UK, they would need both identifiers and would have to go through two processes, but, from our point of view, Northern Irish firms will only have to do one, which is the CE marking, and those goods would be recognised through unfettered.

Those people who are just selling goods in Northern Ireland or in the rest of the UK will have to go through the UKNI system. Effectively, it is the equivalent of the UKCA standard but identified as NI. When it comes to how consumers interface with it and labelling more generally around food, et cetera, Aodhán is your best guide for that.

Q1051 Dr Whitford: I suppose you are more about manufacturing in NI. With a medical background, my concern is particularly on things like pharmaceuticals. You are asking a very big company to produce perhaps a relatively small batch that has the NI mark on it to go to NI. Aodhán, is there a concern, whether it is pharmaceuticals or other produce, that some big manufacturers or food producers might think it is not worth the candle? Would that tend to lead to imports into Northern Ireland from the south? Obviously, the south has a big pharmaceutical industry.



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Aodhán Connolly: The south does have a big pharmaceutical industry but the prices in the south are a lot more expensive, quite simply because they do not have the buying power that 70 million people in the UK have.

On pharma, the good news is that there is a grace period of a year that has been agreed between the EU and the UK. We are waiting to see what the details of that are but it should tide us over. One of the things we are very clear upon is that, if we do get any of these grace periods or implementation periods, there is a lot of work to be undertaken and a lot of agreement to be got during that period. We cannot just face another cliff-edge.

In terms of Northern Ireland to Great Britain, one of the things that came in the UK Internal Market Bill was that Northern Ireland produce would still be able to be part of the Red Tractor scheme and that quality assurance scheme, which is hugely important to give GB consumers that reassurance as far as the quality of our great Northern Irish produce.

On Great Britain to Northern Ireland, this is a real worry for us. As I said, we will effectively be administering the single market standards. There are a lot of questions. What address will need to be on the labels? As you know, the EU rules say that the importer needs to have their address and a phone number on it in case anything goes wrong. There are things like nutritional information, timeframe for implementation, health marks, protected food names and country of origin. There are implications for a product that is produced between now and 1 January bearing the old



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health mark and trading in the different markets and the next loads and batches of products bearing different health marks, for example UKCA and UKNI. There is a lot that needs to be done.

Quite simply, if there is no agreement of that flexibility, the labelling deadlines have already passed. You have to remember that we do not have huge warehouses. A lot of our suppliers will already be building up stock, and have built up stock, for the Christmas period. Quite simply, between Covid and Christmas, you cannot get warehousing or distribution centre space for love nor money. In fact, some of it is going up two or three times its usual price. A simple thing like labelling and being able to get goods that are already produced on the market is hugely important. To the people who say that you can simply stick a sticker on it, that is fine if you are selling 10 goods. If you are selling hundreds of thousands of product lines and millions of items, it is not as easy.

Q1052 **Dr Whitford:** Victor, is there anything you want to add to the issue of labelling in both directions, coming in to NI and going out of NI, by either transport route?

Victor Chestnutt: As Aodhán says, our food companies are concerned that they do not know what label to prepare or to put on. I am hearing from our food companies that they need flexibility in the period where the present labelling is able to be used. They do not want to all of a sudden have a lot of product that they cannot use, or indeed a lot of labels that they cannot use. They are looking for a number of months for that

changeover to take place. That should be achievable if there is good will on both sides.

Q1053 **Dr Whitford:** Stephen, thinking more about the all-island economy, which was part of the reason for the protocol in the first place, are you happy that the flexibilities or the understanding is going to be there about wider things like labour access? We have the common travel area that includes Irish citizens but there are many EU citizens who live in Ireland but might be computer technicians or whatever, which might mean that they come regularly to the north. There is haulage going in either direction. Are you concerned about aspects like that, or do you think they are being taken into account, thinking about the physical functioning of the all-island economy?

Stephen Kelly: We know that approximately 30,000 people cross the border every day just to work. We know that companies in Northern Ireland service companies in the Republic of Ireland. We know that flows in both directions. We still have uncertainties around the status of some of those people within the common travel area. Yes, UK and Irish citizens have the right to work, travel, live and set up a business, et cetera, in each other's territory. The ability of those people who may have come from other parts of the EU to do this is not clear.

We have some concerns around the migration system. There was a shortage occupation list that was being created for Northern Ireland. The Home Secretary has decided not to implement that. That creates problems at the beginning of next year as well. We have an issue in



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terms of the recognition of qualifications, which still has not been fully seen through. There has been some effort on that; there is a veterinary agreement and I believe there is an agreement with the accountants, for instance. The wholesale recognition of qualifications is still causing an issue for us.

Q1054 **Dr Whitford:** Within the medical sphere, I know there are a lot of patients and healthcare services that go back and forth across the border. A lot of the highly specialised stuff is now on an all-Ireland basis, so I was aware of these issues from that route. Aodhán, do you have anything that you want to add about concerns regarding the all-Ireland economy? With regards retail, there will of course be a degree of transaction across the border, both importing and exporting.

Aodhán Connolly: It goes back to that point of the cyclical circle of supply chains that we have across the islands. Any friction is no good for anyone on these islands, quite simply, because friction means cost. We have to look at the benefits of the protocol. Again, the protocol is not perfect in any way, shape or form and it needs mitigation, derogation and compensation, but it gives us that access into the EU market.

Those people who are saying that we will just get everything from the south do not understand the supply chains and do not understand that there will be a currency differential, which makes a real difference. They do not understand that the buying power of the 70 million people in the UK allows us to get better rates on certain things. Again, I go back to the



point that this is not about north, south, east or west. This is about all of it: integrated supply chains across these islands.

Q1055 **Dr Whitford:** Victor, you talked earlier about the concern of Northern Ireland being used as a back door for lower-quality agri-foods into the UK. The EU would express it the other way; if we were bringing in hormone-injected beef or chlorinated chicken or whatever else, it is anxious about that going into the single market. Do you not recognise those concerns that that would be more of a danger if we are thinking about the all-island economy?

Victor Chestnutt: Yes, there is that point to it, but everything has to come through the pinch-points of those ports in that direction, whereas the other way there is a completely porous border from ROI to Northern Ireland. Once it is in free circulation in Northern Ireland, it can pass on through the same ports.

We are concerned on the labelling of veterinary meds. Exactly as you say, we are a small area. Is it going to be worthwhile for a pharmaceutical company registering their product for use in Northern Ireland if it is a specific label? That is one of the concerns we have.

On the labour issue, our food processing plants have issues but so do the ones south of the border, to be honest, at the minute. Any friction is bad for our labour force. The labour force, as with everything else, is totally integrated on the island of Ireland, so any friction is bad on that side.



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I do not have anything else to say. I am going to leave at this point. Thank you all for your questions. It was a very informative point but I should really have been in another meeting in the House of Lords. I have given MPs most of the time. Thank you for the opportunity.

Chair: Victor, we are very grateful to you for giving up your time. You are clearly a man in demand.

Q1056 **Mr Bone:** Thank you to all three witnesses for the testimony that I have listened to with great interest this morning. A lot of it has been based on the fact that there would not be a free trade agreement but my view is that it is pretty certain that we are going to get a comprehensive free trade agreement. If we get a comprehensive free trade agreement, are there any real problems that we need to worry about here, or will they disappear with that agreement?

Aodhán Connolly: There is not going to be a comprehensive free trade agreement in the way that we would usually see a comprehensive free trade agreement. As far as I know, there is no veterinary agreement on the table. There are no wider agreements on the recognition of standards and those sorts of things when we talk about a comprehensive free trade agreement.

A good-case scenario is that we are looking at a zero-tariff and zero-customs trade agreement. Praise where praise is due; if the UK Government and the EU deliver that, it will remove some of the customs friction. People look at this as if we solve this and it is all okay. It is not. This is not a linear equation; this is a 3D jigsaw and you need to have



every part in place to see where the problems are and how to fix them. SPS is a problem. The new VAT regulations are going to be a problem. The checks, the paperwork, the new systems and the delays are all things that will impact not just choice and affordability but profitability for our retailers and other businesses. We cannot underestimate how important it is to get a free trade agreement. Like I said, for Northern Ireland, a free trade agreement and the deliberation of the joint committee are the only shows in town. However, no matter what sort of agreement there is, there are going to be cost rises, because we are talking about a fundamental change in how we do business. Again, it is not one thing—customs—to be solved; it is about 30 different areas that need to be solved.

Q1057 **Mr Bone:** You seem to be better informed on what this comprehensive or non-comprehensive free trade agreement is than myself. I actually do not know how far that agreement is going to go. Would you accept that, if there is even a limited free trade agreement, things do not stop on that day? Afterwards, you can negotiate further on other things. Assuming that there is a free trade agreement, how damaging are the other requirements? I am trying to get a feel for it. If there is no free trade agreement and no deal, there are going to be issues. With a free trade agreement, you still say there are going to be issues but how difficult are those issues going to be?

Aodhán Connolly: I said before to Joanna or Philippa that a free trade agreement is a good baseline. With the Swiss model, you have a baseline



and you add to it over many years and it gets better. That takes time. I have no doubt that, eventually, we will get to a position where we have a good and open trading relationship with the EU. The problem is neither business nor households in Northern Ireland have the time to absorb those financial costs that come with friction. For example, the EHC—the export health certificate—that we have been talking about can cost from £56 to £200. That can add tens of thousands of pounds on to a load. That is very big in terms of eating into profit margins, and the Northern Ireland consumer cannot afford it either. We are hoping and praying for an FTA because it removes a certain amount of friction but it is only one piece of that jigsaw of those things that I spoke about at the very start of the evidence.

Q1058 **Mr Bone:** I absolutely accept what all three of you said earlier on. You need certainty. I was in business for many years before becoming an MP and I exported to the EU and around the world. Tell me what the regulations are and I will abide by them, and my goods will get there because my customers want to buy them. I am very frustrated that the politicians seem unable to accept that there needs to be time.

Having said that, we have known that we are going to come out of the EU since 2016. Every business that I have talked to of any size has already made provisional arrangements for whatever happens. Smaller enterprises will accept, “Our freight agents will do whatever is necessary and we will pay for that cost”. I am not sure where this idea of additional time comes from. Surely four years is enough for people to get prepared.



Aodhán Connolly: If we were told four years ago exactly what we had to prepare for, we would be more than ready now. The fact is that we are sitting six weeks out and we do not know exactly what is coming from the joint committee. We do not know what will be there as far as flexibility and labelling is concerned. Lord Agnew said in the Treasury Committee that business has had its head in the sand on this. I do not accept that at all and I do not accept that we have not been doing our best. There is a lack of freight forwarders to deal with the amount of customs traffic that there is going to be. Even the largest businesses in Northern Ireland are saying that they do not have the information that they need. In fact, we are doing a Northern Ireland Business Brexit Working Group survey at the moment. Over 70% of people who have responded so far say that they are not prepared, quite simply because they do not have the information.

It is not the case that we have had four years to prepare. In fact, we do not know now what we have to do by 1 January, so we have less than six weeks to prepare. We have tried to prepare as best as possible. We have put mitigations in place ourselves. We have spent a lot of money. Bear in mind that we have had the Covid pandemic. There is no Brexit war chest here. Neither is there a good customs or good SPS fairy that is going to wave a wand on 1 January and make this okay. Business has been pragmatic and has been working very hard with the EU, the UK Government and with the Northern Ireland powers that be to make sure that concerns are listened to. In fact, the TSS—Trader Support Service—



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was an answer to the 67-question paper that we brought out in May. We have been working with Government. The fact is that there are still a lot of things that need to be decided and business cannot prepare until it has that information. It is like being asked to do an exam and you only have the front and back pages of the textbook.

Mr Bone: I absolutely agree that time would have been much better and I am afraid the negotiators did not listen to the pleas to set a date for a deadline by which we had to decide. The only deadline we had was 31 October, which we have now gone and broken, so that does not help you. I also think that businesses will adapt very quickly. I do not remember any time when I was in business when the Government were helpful to me. They always landed me with problems at the last minute that I had to solve, and businesses in Northern Ireland will do the same. Stephen, do you think Northern Ireland businesses are prepared for whatever happens, or will the whole thing crash down if we do not get a deal, or even if we get a deal?

Stephen Kelly: You are absolutely correct that a deal makes a lot of these problems fall away. It does not make all of the problems fall away but it is undoubtedly a much better position to be in. There is a thing in manufacturing about getting to 80% as quickly as you can and then working on the other 20%. That is the position that many of our businesses will be in. There is a world of difference between clarity and detail. That is what businesses are asking for. As I sit today, we still get notifications in from the UK Government that say, "We signed a deal a



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year ago. It has implications because there is this thing called the Northern Ireland protocol. Here is how you do things around that protocol. Here is the detail that we can provide you at this point in time". Those things are happening on almost a daily basis.

It is a bit like an onion: every time you pull off another part of the onion, you see another layer of the onion; every time you pull off another layer, your eyes begin to water a little more. In many respects, that is where we find ourselves. We do not have the entire picture. We do not have the entire detail. We cannot prepare people fully. That is why you have heard from the three of us today that we will ensure that our businesses that we are engaging with in the wider Northern Ireland economy will get their best efforts made but, come 1 January or 2 January when those boats begin to sail, they will not be ready. That requires a process of accommodation from both the UK and the EU to ensure that nothing falls over at that point in time.

Q1059 **Mr Bone:** That seems to me quite possibly what will happen. Assuming within the next seven days a free trade agreement is agreed, would the goodwill that that will generate not allow any problems that will arise on 1 January to be solved fairly quickly?

Stephen Kelly: Yes, absolutely. The day the Prime Minister signed the withdrawal agreement just over a year ago, the business community collectively in Northern Ireland said, "This is the deal that has been done and, in order for this to work, we require mitigations, derogations and, where appropriate, compensation". The Government are beginning to



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bring some of those things in. They cannot unilaterally decide some of those things; they need the support of the EU through the joint committee.

Equally, we have also said that the EU, with which we have continued to have this conversation, needs to demonstrate greater levels of generosity of spirit. They need this to work and they need it to stick. The people who will make it work and make it stick are the people in Northern Ireland, in particular the business community. They need us to make sure that this happens. For us to make sure that it happens, we need greater generosity of spirit from them.

Q1060 **Mr Bone:** Would I be right in assuming—I think this was said earlier in the evidence session—that one of the reasons we are not seeing more of this at the moment is that Northern Ireland is being used as a pawn in the negotiations overall? Once that deal is done, we should see goodwill from everyone. It is not only in our interest to do it but it is in the EU's interest as well, is it not?

Stephen Kelly: Yes, absolutely. It is more than a pawn in a game; it is a tug of war and we are the rope. Sadly, we are being stretched at this point in time. We are approaching the end of this tug of war and we are incredibly stretched. That is a massive challenge for us. As I said earlier on, things like a single lasagne being sold at a border Asda store will not pollute the entire EU single market. There has to be accommodation for things that just make sense. This is where we need to get to. Once we, hopefully, conclude a deal between the UK and the EU and we get to that

80% as quickly as we possibly can and we work on that other 20%, as I described earlier on, the UK can choose which bits of the EU it engages more greatly with.

At this point in time, there appears to be a battle of negotiations but, actually, the UK can decide, come a free trade agreement being signed, that there are things that are just common sense. There are things and elements that the EU does really well. We know that not everyone believes the EU does everything well but there are bits that it does absolutely well and there are bits that we need it to do well for us. If the UK decides, once it has established the relationship and a platform to build upon, to choose those common-sense things, we would hope that they would do that.

Q1061 Chair: I have one final quick question, and a very succinct answer would assist. Do you understand how the VAT provisions in the protocol are going to be implemented?

Stephen Kelly: Yes, to a degree. There are real benefits for Northern Ireland business within some elements of this but there are also challenges, as with everything related to this subject matter. We will have access to some of the EU systems in terms of recovery of VAT, particularly in and around goods, but there are complexities around where goods and services are mixed or where services only are applied. HMRC is trying to find a workaround on that at the moment.



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An issue has evolved in the last number of days. A small piece on the guidance was published around the margins VAT scheme, which will mean that potentially things like second-hand equipment, machinery and motorcars that are brought from GB into NI may have VAT applied and it cannot be recovered. We would hope that, because this is an internal sovereign UK issue, the UK can resolve this and the EU will say, "Fine, you have resolved it". There are problems and complexities.

I would recommend, if the Committee has 10 hours to spare, talking to VAT experts in and around this area because we have people involved with our group who specialise in this and they find it difficult at times to communicate this in a digestible form.

Chair: We are very grateful to you, Stephen, for summarising that, not in 10 hours but in about a minute and a half. That brings our proceedings to a conclusion today. On behalf of the whole Committee, can I say a very big thank you to Victor, who has had to leave us, Stephen and Aodhán for your evidence today? It really has been helpful and extremely informative. Once again, we are very grateful to you.