

European Affairs Committee

Protocol on Ireland/Northern Ireland Sub-Committee

Corrected oral evidence: Introductory inquiry into the operation of the protocol on Ireland/Northern Ireland

Wednesday 19 May 2021

4.15 pm

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

Evidence Session No. 2

Virtual Proceeding

Questions 11 - 23

Witnesses

I: Aodhán Connolly, Director, Northern Ireland Retail Consortium; Seamus Leheny, Policy Manager for Northern Ireland, Logistics UK; Stuart Anderson, Senior Policy Adviser, CBI Northern Ireland; Stephen Kelly, CEO, Manufacturing NI.

Examination of witnesses

Aodhán Connolly, Seamus Leheny, Stuart Anderson and Stephen Kelly.

Q11 **The Chair:** Good afternoon and welcome to this, the second public meeting of the European Affairs Committee's Sub-Committee on the protocol on Ireland/Northern Ireland and the first of this new parliamentary session.

This is our second evidence session in our introductory inquiry examining the current situation in Northern Ireland as it relates to the protocol, including the views and concerns of communities and stakeholders, the current state of play on the protocol's operation, the continuing dialogue between the UK and the EU on the protocol in the Withdrawal Agreement Joint Committee and the governance bodies reporting to it, and efforts to

identify solutions to the problems thus far identified.

We continue our work today through an evidence session with members of the Northern Ireland Business Brexit Working Group. You are all extremely welcome. We very much look forward to what you have to say to us. I would be grateful if you would introduce yourselves briefly the first time you speak.

Today's meeting is being broadcast and a verbatim transcript will be taken for subsequent publication, which will be sent to witnesses for you to check for accuracy. I should also refer to the list of members' interests, as published on the committee's website.

Perhaps I could move straight to the first question, which is addressed to Aodhán Connolly, who is very welcome here this afternoon. What is your overall assessment of the experience of businesses, based both in Northern Ireland and in Great Britain, since the protocol came into force on 1 January? In your view, is the situation improving, deteriorating or remaining broadly static? Over to you, Aodhán.

Aodhán Connolly: Thank you very much Chair, and members, first for your interest and secondly for your invitation to speak with you today.

We could start with what we in the business community usually have to do, which we call "shooting unicorns"—trying to give you the reality of the situation rather than the skewed narrative that has been out there. At the start of the year, some people said that Northern Ireland was starving. Other people said that everything was going absolutely tickety-boo and there were no problems at all. Neither of those narratives was correct. I am the director of the Northern Ireland Retail Consortium as well as being the convenor of the Northern Ireland Business Brexit Working Group. In retail, the average supermarket has between 40,000 and 50,000 product lines and only a few hundred were ever missing.

Both narratives—the people who said that we were starving and the people who said that it was absolutely fine—do a huge disservice to the people in my own industry of retail and to Seamus's colleagues in logistics, who worked really, really hard to make this happen, to make sure that we had food on the shelves and that things continued to move.

As far as the Northern Ireland protocol is concerned, we did not want it. In fact, when it came in, we said—I am on record saying this—that the Prime Minister had not listened to the Northern Ireland business community and neither had he listened to communities across Northern Ireland. However, it is in law, and the reason it has worked as well as it has worked, the reason it has improved since the start of the year, is because of the best endeavours of business. Business has not been found lacking. In fact, business has been pragmatic and forthright in saying what has gone well and what has not gone well, and has worked with both the EU and the UK to find solutions.

We were heading towards a huge pitfall on 1 April, when we would have needed export health certificates for SPS goods coming into Northern Ireland. Quite simply, we did not have the capacity to do that. We had

hoped that the EU and the UK would have come together in their February Joint Committee meeting and said that there would be a bilateral extension of the grace periods to allow a new trading system to be in place. You have to remember that the reason for the grace periods was so that a new system could be designed and put in place. It was not designed or put in place. Therefore, the rationale behind the grace periods was still there.

So although we did not agree with how it was done—we would have much preferred it to have been done bilaterally—we really needed the substance, and that was the extension of the grace periods. To put that in a timeframe, the arrangement was announced on the Wednesday. On the Friday, several of the large retailers were going to have to take decisions that would have affected the supply of goods and food to Northern Ireland, so there was a need to take that decision.

Since then, we have said to Vice-President Šefčovič, when we met with him, to the CDL, Michael Gove, when we met with him, and to Lord Frost that we need a long-term system, something that delivers stability, certainty, simplicity and affordability. We can get into that later on.

It has improved compared to where we were. There are still huge challenges when it comes to things like composite goods and plants coming in and e-commerce. One of the biggest challenges is that, while millions were spent on telling GB suppliers to get ready to trade with the EU, not a penny was spent on telling GB suppliers to get ready to trade with Northern Ireland. So we are managing, we are coping, due to the hard work of those throughout the supply chain, be it manufacturing, logistics, retail and more widely. There is, however, a real concern that time is ticking away and that we face severe problems come October.

Q12 The Chair: Thank you very much for that. That is a very good introduction to what I am sure will be a very useful session.

You have talked about the attitudes of business. Have SMEs fared as well, worse or better than larger companies? Perhaps that is a question for Stuart Anderson and Stephen Kelly.

Stuart Anderson: Good afternoon, Lord Chair and the committee. By way of introduction, I am the senior policy adviser to CBI Northern Ireland. We come at this not only from a size perspective but the unique perspective of looking across all industries.

Your question is a good one, particularly in the context of the pandemic. A recent survey from Enterprise Northern Ireland revealed that around 85% of SMEs had been impacted negatively by the pandemic. I guess the scale of the challenge varies, and not just in accordance with the size of a business; it is down to the sector that it operates in and the structure of the supply chain of that business.

It is particularly useful to note the profile of trade between GB and Northern Ireland and where we are seeing the strongest frictions. Around 72% of the purchases made via that route by NI firms are by medium or

large-scale businesses, but this represents just 6% of the total of NI businesses purchasing from that route. That leaves around 13,000 Northern Irish small and micro-sized businesses and self-employed traders working across the GB to NI route.

It has been challenging, and we will discuss separating the challenges from initially adjusting to the protocol from what we now see as structural issues with the framework. From what I have been seeing and hearing, for SMEs in particular, although it is not peculiar to them, there is the issue of human capital and the ability of that resource to meet the demands of the customs administration piece in particular. Again, we will come to that in more detail.

It is interesting to note that solutions can and do lie in technology and automation. From a recent report published by Queen's University in Belfast, it was clear that, in the context of Covid, SMEs saw the digital skills deficit in Northern Ireland as the single biggest barrier to automating and improving their processes. So there is an issue there that needs to be addressed. There is an underlying structural issue in the Northern Ireland economy. It is particularly acute for SMEs, but it applies right across the economy.

The Chair: Thank you for that. Stephen Kelly, do you want to add anything to that?

Stephen Kelly: Thank you. I am chief executive of Manufacturing Northern Ireland. We represent those who make things here and sell to markets at home and abroad. If you think about manufacturing in its broadest sense, it is anyone in Northern Ireland who makes anything from aeroplane wings to chicken wings and everything in between. It is the broadest possible definition.

Stuart and Aodhán have covered the question pretty well, so far. From a manufacturing perspective, the scale of your business does not matter. Everybody has experienced the same levels of disruption. When we surveyed the sector back in February about their experience in January, we asked manufacturers specifically if they had made preparations and if those preparations had had a positive impact on their business in preparing for the end of the transition period. Regardless of whether a business had prepared or not, everyone experienced the same levels of disruption. That tells us that the timing of the deals done, the dates on which information and detail were released, and the lack of time being made available for businesses to make adjustments based on that new information meant that investments that may have been made in 2020 and 2019 were largely wasted investments, because there was such a fundamental shift, with no time to prepare and with a massive volume of new information to try to comprehend.

We continue to survey the manufacturing sector. We have committed to doing that. We asked businesses after month one. We have now asked them after month three. We will share our report with your clerks so that

it will be available to the entire committee, but I can give you some brief headlines from it now.

Our manufacturing community said that 77% had experienced some negative impact to their business from 1 January onwards, so three out of four manufacturers have experienced a negative impact; and 36% said that they were currently struggling with the new processes and believed that the struggle would persist, so one in three manufacturers believe that those struggles will continue to have an impact on their businesses.

The challenge was not just with the GB to NI route. Forty-six per cent said that their EU suppliers were unaware, unprepared or unwilling to supply into Northern Ireland. A lot of the criticism was about the UK not ensuring that businesses in GB were ready to trade with Northern Ireland. Similarly, there was criticism that the EU had not done enough to make it clear that Northern Ireland has a different status for the free circulation of goods.

More than 50% of manufacturers said that their GB suppliers continued to be unprepared for sending stuff to Northern Ireland. That dial has not moved at all since the beginning of the year. It continues to be the single biggest struggle that our members face. Worryingly, one in five—20%—said that their GB-based suppliers were currently unwilling to supply to Northern Ireland.

The challenges are multifaceted. The challenges are difficult. The premise of your initial question was whether these issues were easing. I would say that the protocol continues to be implemented, changes are happening all the time, and as those changes are happening businesses continue to struggle with the new processes and the new requirements. That is reflected largely in the sentiment of our manufacturing community.

The Chair: Thank you very much for that. We look forward to getting your report and looking at it in detail. This has been a very good start to our session this afternoon.

Q13 **Baroness O'Loan:** I will develop the answers you have already given. What aspects of the operation of the protocol are proving the most challenging? Among the issues that have arisen, are you able to discern what some have described as teething problems and what are the underlying structural problems with the operation of the protocol?

Seamus Leheny: Good afternoon, Baroness. Thank you for your question. I am the Northern Ireland policy manager for Logistics UK. We are a UK-wide business organisation with 18,000 members. Our members are involved in the transport of goods by road, air and sea.

We are on the fault line between Brexit and the protocol. Our members are tasked with moving the products that Aodhán and Stephen sell and make. The question about the teething problems and structural problems with the protocol is a good one.

The two areas that we would look at are customs, and sanitary and phytosanitary. Sanitary and phytosanitary relate to the movement of food and plant products. The first area, customs, has improved. In the early weeks of January and February, the Government organised and funded a trader support service. It is a free-to-use service for businesses to avail themselves of. It acts as an intermediary service for carrying out customs declarations. Processes have improved relative to the early stages when there were long delays and issues which they seem to have been ironed out. Staffing in the trader support service has also improved.

Last year was deemed the year of transition, but it was anything but. It was the year of negotiations and last-minute advice and guidance, so much so that we were getting guidance for the parcel sector as late as New Year's Eve. We have been learning on the job and the trader support service was no different. It was also learning live.

The problem with customs that sticks with us today is the timeframe for supplementary declarations. If I move something from England to Northern Ireland today, I make a simplified declaration using the trader support service. Then, by the fourth day of the following month, I need to give supplementary information, such as commodity codes, and that determines if there are tariffs. It is a very short timeframe for a lot of businesses and it is very time-consuming and costly for them. So that is something that we would like to see improved. Technology has a role to play in that.

I think the other speakers will agree with me that, ultimately, it comes down to the at-risk profile of the goods. We do not believe that everything coming in here should be classed as at risk of entering the EU. Most of it is not.

Sanitary and phytosanitary has been hugely challenging for our industry, because getting goods to move in the first place involves a huge amount of admin. If you are moving goods of a plant or animal origin, even though we have a grace period to produce health certificates for a lot of those products, you still need a STAMNI declaration. A STAMNI declaration is a document very similar to an export health certificate; it is used in lieu of an export health certificate. We are using them until 1 October. However, export health certificates are required for a lot of prohibited or restricted goods, such as chilled meats. All those documents need to be signed off by a veterinary official in GB. You also have to give pre-notification of arrival to DAERA when goods are coming into Northern Ireland.

Our members might typically have two or three members of staff working on just one lorryload to get it moved to Northern Ireland. It is okay if you have one lorryload, say, of beef carcasses. That requires one declaration, one pre-notification. However, some of our smaller members might have one lorryload with hundreds of different types of SPS consignments on board. That means repetition of the paperwork, which has proved very difficult, especially for mixed loads.

We have worked Defra and DAERA. They have been really good, actually, very helpful, especially the DAERA officials on the ground in Northern Ireland. They have worked with us and we have come up with solutions, which we can touch on later in the session today.

Work is happening and food is moving, but what is moving is taking a huge amount of effort from the logistics providers.

Baroness O'Loan: That is very helpful indeed. Stuart, did you want to add to that?

Stuart Anderson: Yes, I will just build on it. Seamus has summed the situation up quite well. The only distinction I would make is to separate the issues around the operation of the at-risk test and the application of the EU customs code.

You have to go back to the legal text of the at-risk test. It is within the gift of the Joint Committee to define what is not at risk, but the definition of at-risk makes it a catch-all test with very limited exceptions. A particular challenge for us is the fact that the test applies to commercial processing in Northern Ireland, with very limited exceptions. Take the aerospace industry, for example. An absence of rebates and an absence of ways of getting to a zero-tariff outcome can make GB to NI movements particularly problematic. As I mentioned, it is within the gift of the Joint Committee. The language in the protocol is very specific. It can be revised at any time.

Taking the application of the EU customs code as a separate and standalone item, as Seamus said you have the simplified frontier declaration, which members across all industries and sectors have got to grips with and understood. They have not had any great difficulty with it. The TSS has been a very supportive service and it certainly has been very useful from an education perspective.

The difficulty that Seamus referred to is with the supplementary declaration piece. The problem here is that it applies not just to goods that are at risk of entry to the EU single market, but universally to goods entering Northern Ireland. I spoke to a motor retailer yesterday, who has to complete around 300 declarations per month, two-thirds of which are for goods that are not at risk. If we can find a solution in respect of that particular angle, which would reduce that bureaucracy, it would have a significant impact, particularly for the SMEs we referred to earlier.

Q14 **Baroness O'Loan:** Thank you very much, gentlemen. There was an awful lot in there.

I move to the second part of my question, which I will address to Aodhán and then to Stuart possibly. Having identified the problems, to what extent have other factors, such as the wider changes in the UK-EU trading relationship—or the Covid-19 pandemic, about which you have already spoken—contributed to the disruption that has been encountered?

Aodhán Connolly: That is a good question. Looking specifically at the start of the year, there was so much focus on what was happening and there were those skewed narratives, not just in the UK media but more widely across the EU.

There was an EU to GB blockage, quite simply because things could not move because of Covid-19. That had the immediate effect of stopping supplies going through, not just to Northern Ireland but to Great Britain. You also have to remember that that meant that ingredients were not coming through. That had a knock-on effect on ready meals and things that would have been prepared. We are at the end of the supply chain, so although the things that were held up for a few days may have still have had a couple of days' shelf life left in them for use in England, Scotland or Wales, simply through geography we have 18 hours' less shelf life than Bolton or Birmingham.

Another thing that was not taken into account at the start of the year was that we were completely outside our normal growing season. At that time of year, it is not unusual for there to be shortages of certain things, because we are reliant on bringing them from the south of the EU or further afield. At that time of year, about 90% of lettuce, about 85% of tomatoes and about 65% of all soft fruit and vegetables would come from the EU. Shortages are not unheard of, but we have some supply problems. Especially at the start of the year, a lot of people were trying to make out that it was very simply about the Northern Ireland protocol. It was not. It was due to a range of issues. In the business community here we keep trying to keep balanced and realistic about the challenges, because only then can you find realistic solutions.

There have been problems since then, and again I go back to that education piece, and this is not just for the UK Government; we are also asking the EU to do an education piece about supply to and from Northern Ireland. We need the wider business community in Europe, and especially in Great Britain, to understand that not only is Northern Ireland open for business but we are open to buy your goods, and for the majority of things there is not that much paperwork involved, especially when it comes to things like business to consumer, where you do not need to do the extra customs work. It is only business to business where the complications come in.

A range of factors have made it more difficult. There are other things that have impacted, and this again is where we have to try to tease out the reasons. There have been problems with different global commodities over the past few months, which has affected Great Britain just as much as it has affected Northern Ireland but, again, it gets pinned on the protocol.

A lot of challenges come with the protocol, and even more will come from October onwards when the phasing in which the UK Government are proposing will happen and with the export health certificates. It will be costly. A lot comes from the protocol, but a lot does not. We need to be

realistic about that and apportion blame to each of the areas that deserve it, rather than just to the protocol or to the withdrawal agreement.

Baroness O'Loan: Before I move to Stuart, what kinds of global commodities are you experiencing problems with, problems that are pinned on the protocol but are not related to the protocol?

Aodhán Connolly: There have been different things. It depends who you ask. I have heard everything from bread and milk powder to oil. Wherever there is a blip, a lot of people have had a kneejerk reaction and blamed it on Brexit or the protocol. It has become a one-stop blame shop. We are trying to apportion the reasons for problems. I have heard everything, including from someone not getting their parcel: "It must be the NI protocol". Actually, people in GB were not getting their parcels either; there was a problem somewhere else along the line.

Covid-19, especially, affected European supply chains. A lot of things opened up very quickly. There have been knock-on delays and there have been knock-on problems with the apportionment of what commodity or what product goes where. It is very easy to blame and point the finger at something that is big and visible, rather than looking at the complexities of global trade.

Baroness O'Loan: Stuart, would you like to add anything to that?

Stuart Anderson: One underlying thing for us, particularly for NI exporters in the manufacturing space, is the global trade environment and the importance of the challenges there. You referred to the issues with commodities. There is an issue, for example, with the pricing of and access to polymers. That was largely down to the weather in the United States and Covid-19. Prices in March were double relative to the previous six months.

We have also seen significant inflation in transportation costs. Towards the end of last week, I was speaking to a member who reported a threefold increase in the cost of moving products to the US. There is significant fluctuation in the global trade environment and it is difficult to ascertain where the challenges lie and whether it is with the protocol or the global trading environment. It is very challenging for businesses at present.

You touched on the wider UK-EU relationship. There certainly were challenges in adjusting to it, given the absence of a post-deal adjustment period. It was agreed on 24 December and implemented on 1 January. Getting to grips with things like the at-risk test, in addition to rules of origin, proved to be particularly challenging. But, as colleagues have said, colleagues in Defra and in the Cabinet Office have been very heavily engaged with us every week trying to overcome these issues. They deserve credit for helping us through very challenging times.

Baroness O'Loan: Thank you very much indeed.

The Chair: Thank you. That was very helpful, and thank you for the

tributes to the Cabinet Office and elsewhere. That is helpful. Lord Thomas has a question to Aodhán Connolly.

Q15 Lord Thomas of Gresford: I am a Liberal Democrat Peer, and a lawyer by trade. I live in north Wales. I remember, around the time of Theresa May's attempt to leave the EU, making a speech in which I said I would give my right arm for Wales to have unfettered access to both the British and the EU markets. Perhaps I was being naive. Is there anything positive? What is going well, or more smoothly? Has anything improved since January? Can I ask Aodhán first?

Aodhán Connolly: Yes. You have to remember that big retailers, whom I represent, and small retailers, have not been importers or exporters, and that is essentially what has happened since 1 January. A mammoth amount of work was undertaken for each of the 40,000 or 50,000 product lines that I was talking about. Each needs a separate customs code entered before it can get on the boat to come over to Northern Ireland. For me, there is a real opportunity to say thank you to the retailers and our friends in logistics for making that happen. That has improved a lot.

The opportunities will come from foreign direct investment, from having that ability to sell into the EU and to sell into the UK. For us in the retail industry that will trickle down from those great jobs, those sorts of opportunities. To be honest, we are starting to see that happen. For example, in answer to a question from the chair of the economy committee, Invest NI has said that it is currently looking at 30 different potential investors for Northern Ireland.

The opportunities will come. However, we need to make sure that we take as much as possible of our current economy with us. We need to remove as much of that friction as possible that is there now, so that as retailers we continue to be able to give the people of Northern Ireland the same choice and affordability that they deserve. We have to bear in mind that the Northern Ireland consumer has half the discretionary income of Great British households, so for them the real opportunity has to be to have some sort of semblance of affordability and choice that they have now.

Lord Thomas, may I suggest that you ask Stephen Kelly about the opportunities? Manufacturing and that added-value area are really where we can save the most.

Lord Thomas of Gresford: Yes. Perhaps I can put it to him. I am interested to know whether there has been a positive economic impact so far, or whether he sees one in the future. I know he was pretty downbeat about it when he gave his first reply.

Stephen Kelly: Thanks, Lord Thomas, and apologies for being miserable at the beginning there. Being Northern Irish, we are never happier than when we are miserable. You have experienced a bit of that. Aodhán has already picked up on one element of it. Since the start of the year our economic development agency, Invest Northern Ireland, has dealt with

more than 30 new foreign direct investment inquiries—people looking at Northern Ireland as a location to service the rest of the UK marketplace and to have the free movement of our goods into the EU marketplace.

I understand that those inquiries have come from as far away as New Zealand and as close to home as the island of Ireland, and indeed Britain. In my own personal experience, in seven and a half years in this job, I have never been engaged with as many potential investment opportunities in Northern Ireland as I have experienced in the first number of months. That is not my job. This is not the core part of what we do as an organisation.

Some of those are pretty significant investments. One is potentially up to 500 jobs and a £100 million investment. It was attracted for one specific reason, and that is marketable access to both the UK and the EU market. So there may be challenges in being potentially on the wrong side of the customs border, but manufacturers are looking at the opportunity that is presented of being on the right side of the regulatory border in order to access those marketplaces.

In the survey work that we have done, which I have now shared with the committee clerks, when we asked our manufacturing community about what they would like to see happen next there was a lot of conversation and discussion about making the protocol work and getting GB suppliers prepared. When we asked in February, one-third said that they would like the Northern Ireland Executive to identify and secure new opportunities. That has now risen to 46%. So despite the friction experienced in the first number of months, manufacturers, maybe because they are suffering from some optimism bias or see themselves as problem solvers, or maybe just because of their entrepreneurial spirit, also see the opportunity that exists here. Now, half of manufacturers in Northern Ireland are saying, "Listen, we are where we are. This provides an opportunity for us. How do we grasp this opportunity?" They are looking for support from the Northern Ireland Executive to help them grasp that opportunity.

Today, the Republic of Ireland's Central Statistics Office has published the latest trade figures, which show that, in the first three months of this year, exports from Northern Ireland to the Republic of Ireland have grown by 44%. There is a shift of supply chains across Europe. For the one that is close to home, the Republic of Ireland, there is a 44% rise in sales from Northern Ireland firms into Irish firms. That is a pretty significant jump, to say the least. That is a pretty significant jump in anybody's book.

That is caused by some of the problems that Irish companies may have with their distribution through GB, but it is also caused by firms here in Northern Ireland picking up the phone or jumping in the car and going and seeing potential customers in Ireland, and saying, "You may be having problems. We can supply". We need to see more of that opportunity being grasped.

Lord Thomas of Gresford: That is very positive. Perhaps we should push the border from Holyhead to Chester. It is a possibility for the future. Seamus, what is your view on that?

Seamus Leheny: I would probably agree with Stephen there. A lot of our members operate on an all-Ireland basis, so they do distribution, and a lot of companies here are taking goods from continental Europe or from Great Britain, storing them in a warehouse in Northern Ireland and distributing on a Northern Ireland basis. They are extremely busy. At the moment, business has probably never been better for them. Stephen mentioned a 44% increase in quarter one of this year compared to last year. To compare Northern Ireland to GB, last year for quarter one, out of all UK exports to the Republic of Ireland, Northern Ireland accounted for 12%. This year Northern Ireland accounts for 25% of all UK exports to the Republic of Ireland.

There is product substitution taking place whereby retailers in the Republic of Ireland may have imported certain products from GB but are now sourcing them from Northern Ireland. That has been a very positive thing for the local economy and for our members there. The unfettered access to continental Europe is also beneficial. There still needs to be education with some European countries. Certainly in the early months of this year, some European countries were not entirely sure about Northern Ireland's place in the single market. That is something the Department for International Trade could work on, and BEIS.

We have seen improvements with the Trader Support Service, which I outlined earlier, as well as making the easement better. That is the positive: that access to and from the European Union.

Lord Thomas of Gresford: I am very much heartened by that.

Q16 **Lord Empey:** Good afternoon. I will ask a question initially to Seamus. How would you compare the movement of goods from Great Britain to Northern Ireland and from Northern Ireland to Great Britain in either direction via the Republic? As a follow-up, what impact has the protocol and the UK withdrawal had on trade flows more broadly? We have just been discussing some between GB, and Northern Ireland and the Republic and the rest of the EU. What is the situation on the ground at the ports, the entry and departure points?

Seamus Leheny: Thank you, Lord Empey. There are three directions of trade that you are talking about there. Great Britain to Northern Ireland is where the heavy lifting and the administration are taking place at the moment.

Nothing is hindering Northern Ireland to Great Britain trade at present except for a few limited products, such as hazardous chemicals, that need to be declared. By and large, that is working quite seamlessly.

Going through Dublin is awkward. Dublin-Holyhead was always vitally important, especially for our agri-food industry, because it is the fastest route to market for the south of England. A lot of businesses are avoiding

transiting the Dublin-Holyhead route at the moment, because the easements currently in place for the grace period for the Northern Ireland ports are not in place at Dublin Port. That triggers a third-country entry, even if you are just going under a T1 transit.

There are a number of things. First, let us talk about GB to Northern Ireland via Dublin. It used to be that you could raise a T1 transit document that told Irish authorities that it did not need customs cleared in Dublin, because the end destination is Northern Ireland. That was fine, but if those products were food products they still had to undergo the SPS—sanitary and phytosanitary—controls. We had some vehicles parked up for 24 hours. There are still communication problems there with the Irish authorities where, even when a trailer is cleared for release, the driver may not get a text message from the authorities for up to six to 12 hours later. There is still work to be done there.

The Republic of Ireland's AIS IT system has improved significantly since the first few months. For a few months it was very slow and laborious. It crashed a number of times. Now declarations are happening within minutes, so that is better. The key problem in Dublin is the movement of foods under that SPS.

I will move on to the ending of the transit. It used to be that if I lifted a load of food in England and I was delivering it somewhere in County Fermanagh, as long as I gave 12 hours' notice to UK Border Force I could end that transit movement anywhere within Northern Ireland. That facility was removed on 8 April by HMRC and Border Force.

Now, if I use transit via Dublin, I must either only deliver those goods to an authorised co-signee in Northern Ireland, which is quite a laborious audit for any business to undergo, or I have to go to the border control post in Belfast. That is quite a detour. If I am driving from Dublin to Enniskillen, but then I have to go via Belfast, what is the point of using Dublin at all? We have seen in the last couple of months that trade volumes at GB to Northern Ireland ports have increased. They are back to where they should be. Actually, they are slightly above on our year-on-year, but that is because we are substituting a lot of the produce that would have normally gone through Dublin.

The Trader Support Service cannot facilitate any transit movements going the other way, from Northern Ireland to GB via Dublin, so that is more difficult. Plus, you have to pay an export declaration for Dublin Port, which is around £30 per declaration. I spoke to one of our members who moves a couple of thousand loads a year out through Dublin-Holyhead. When you add the cost of shipping it through Dublin, it is adding huge overheads to the costs for them. That is where it is. Friction is primarily via Dublin with the foods, but also, coming from GB to Northern Ireland, it is filling out the forms, which we touched on earlier.

On the situation on the ground at the ports of entry and departure, there are no problems at the GB ports. Prior to 1 January a lot of people envisaged long delays of trucks in Cairnryan and Liverpool. In the first

week or two there was a 15% or 20% turnback rate initially for trucks arriving that did not have their reference numbers correct. Now there are no problems at the ports, so much so that Transport Scotland had a parking site in Cairnryan for trucks and closed it down after two weeks because no vehicles were using it. Goods and lorries are getting on to the ferries okay, but only because the lorries arriving at the ports have all their paperwork in order. They only go to the port when they are prepared.

At the Northern Irish ports, things are generally okay from a customs point of view. There are no problems there. The problems can be at the border control posts, primarily at Belfast, because they are spread out over three sites and they have limited space. If three or four lorries arrive at one time, the officials can do one truck at a time, so some vehicles have a delay because they are in a queuing system. Some vehicles, especially double-deck trailers, cannot get into some of the premises because they are temporary sites.

DAERA staff have been helpful, working with a lot of our members. We usually have weekly calls with them to talk to our members directly. We have looked for solutions where we can on that.

Q17 Lord Empey: We were talking about the figures released about the increase in goods flowing from Northern Ireland to the Republic. Is it a bit early yet to see if a pattern settles, given that we have these derogations at the moment that will ebb and flow over the rest of this year? How settled are some of these patterns, or are we simply in a larger transition period?

Seamus Leheny: A lot of our members involved in that cross-border trade are getting a growing number of inquiries from GB businesses and other European businesses about that distribution model.

For us, at the moment it is hard to compare the trade, because we will not have the figures for the Northern Ireland and GB trade until next year, whereas the CSO figures quoted today are updated on a monthly basis. In real time, it is hard to see how Northern Ireland trade has impacted with GB trade, because we simply do not have those figures yet to compare.

Stephen Kelly: I agree with Seamus. Actual raw data will not be available. It will require some civil servant from Northern Ireland to go into a basement at HMRC and wade through all the forms. We know that will be reported on an annual basis, and it tends to be towards the back end of the year following before those numbers are available. In terms of actual statistics, we will not know that.

All we can go on at this point in time is anecdotal evidence and survey work. The manufacturing community is saying that demand continues to be strong from Great Britain and that they continue to have no issues with sending stuff to Great Britain. We hope that will continue.

In terms of trade with the rest of the EU and Northern Ireland, Seamus has flagged a couple of issues there. EU member states have some work to do to explain that Northern Ireland goods can still freely circulate. We have experience of bottles of wine being turned around on every three loads from German customs. We have transit documents not being recognised in Finland for stuff that moves across from Hull port. Containers of scrap steel are sitting portside in Lisbon. I have a guy in Newtonabbey whose ties continue to be opened up and returned by Italian customs.

A number of these issues are challenging and temporary, but, in the longer run, we will not know until those statistics become available to us.

Aodhán Connolly: I have nothing to add, other than that, as you rightly said, it is too early to tell. Cross-border trade from 2007 to 2016, for example, was up and down like a yo-yo, but it ended up being pretty much a zero-sum game. Only after wider changes and Brexit kicked in did we start to see that difference.

We do know as regards flows that there has been some uptick in Northern Ireland goods, especially agri-food goods, from the south. We do know that there has been a slight displacement of GB goods for either northern goods or southern goods, but, quite simply, we will not know the final picture until we get data from a couple of quarters. It will change again when we see the new SPS and so on in October. We are probably talking about this time next year before we have any sort of dataset that we can stand over.

Q18 Lord Caine: Welcome to all the witnesses. It is good to see familiar faces from my recent and not-too-recent past. My questions are in part inspired by conversations I had in Leeds—outdoors, I hasten to add—a couple of weeks ago with friends over dinner. They supply packaging to Northern Ireland and were biting my head off about how much more difficult it had become since 1 January.

Aodhán touched on this slightly in his answer to the first question. What is your assessment of how prepared businesses in Great Britain have been for the requirements for trading under the Northern Ireland protocol? Seamus has referred to the Trader Support Service, which was widely publicised by the Northern Ireland Office and others. I want to get a better sense of how successful, helpful and comprehensive the Trader Support Service has been.

Finally, is there a real prospect that the difficulties businesses in GB are encountering will lead a number of them to conclude that it is no longer worth supplying the Northern Ireland market at all? Frankly, some of us would find that to be an extraordinary situation in a United Kingdom that prides itself on an internal market. Over to you.

Aodhán Connolly: No pressure, then. If you look at this as a business, the real problem here is that we did not have a transition period. We had a protracted negotiation period. The big problem with all this is that politics got in the way of what should have been a very technical process.

A business likes certainty. A business likes to know technically what it will do. We simply did not have that. The extreme position was the fact that we did not know what the regulations would be for sending parcels to Northern Ireland until less than 18 hours before the end of the transition period. Three new computer systems—TSS, CDS and GVMS—came in and were not really tested with businesses until two weeks beforehand.

It is not as if you can flick a switch. Everyone, from the person who texts the order, the person who packs the order, the person who labels the order, the person who drives the order and the person who delivers the order, needs to understand the new regulations, know their responsibilities and make sure that the paperwork is up to scratch. If you do not have your correct customs codes, for example, you are not getting on that ferry. It has to be that way. There is no room for error in any of this.

If this were a business decision, we would have been talking about somewhere between 12 and 18 months for one of those computer systems to be phased in, but for three of them, plus the customs and everything else, it was an unbelievable feat of human spirit that we were able to keep that trade flowing, especially when it came to things like supermarkets. It is not like when things come from New Zealand and you have four commodities in huge amounts. You have up to 1,500 products on a supermarket lorry, and up to 500 of those could be products of animal origin, which need self-assessment certificates. That was all perceived as a barrier to a lot of GB businesses sending goods over.

Even with the parcel stuff, you do not have to do a customs form for business to business unless it is over £135, and even if you do you have three months to send them in. For business to consumer, you do not need to do anything extra, other than to have a label. To be honest, a lot of businesses did not understand that.

It goes back to that education piece, which I mentioned at the start and which you mentioned there. Millions were spent on getting ready to trade with the EU and nothing was spent on getting ready to trade with Northern Ireland. You can find certain things on GOV.UK if you search, but there was no actual campaign to say, "Northern Ireland is open for business. Northern Ireland consumers still want to buy your goods. Some 1.9 million people still want to avail themselves of your services and your goods". For me, that is still an ask. In fact, before this, I was writing up a new position paper for the Northern Ireland Business Brexit Working Group. That ask of an education piece was there in our October paper. It is now there in our May paper again.

Will people pull out? There is a simple equation. It does not matter whether it is retail or any other industry. If the new frictions and new costs are higher than the profit margin, either the product or the business model becomes unviable. Some businesses that sent business to business have already stopped that. Some that sent business to consumer are seeing the extra burden as unprofitable or unmanageable. It is not just about your 2% or 3% profit margin but about whether you need to

employ someone to make sure that you are doing the right thing for both regulations and customs.

As the Business Brexit Working Group, we are trying to work with the EU and the UK to look at a pragmatic, proportionate response that removes friction. The only way to keep trade viable, to remove friction and cost and to keep affordability and choice for Northern Ireland families is to keep it simple.

Lord Caine: You mentioned the lack of any campaign to promote doing business in Northern Ireland for GB companies. Is that to some extent what the Trader Support Service was supposed to achieve?

Aodhán Connolly: No, not so much. There is a difference with the technical conversations with the Trader Support Service. Members of the committee know me well enough to know that I am the first person to say if something is going badly. I am also the first person to give praise. We talked to the TSS about how it was engaging with people and what was needed. There was a big effort, and I am glad to say that a lot of people, including us, are praising the TSS now. But that is very technical, and everyone, from the boardroom to the technical guys, needs to understand how easy it is and what the new regime is for trading with Northern Ireland. Quite simply, that was not done.

Stephen Kelly: The single biggest problem that our manufacturers face is the preparedness and willingness of GB suppliers to continue to send stuff to Northern Ireland. Back in January and the beginning of February, 53% of firms reported that preparedness of GB businesses was their biggest challenge. We appealed to the Chancellor of the Duchy of Lancaster and others to support and to provide more assistance there. Three months later, when we asked firms, that dial had moved only 3% from 53% to 50%. It continues to be the single-biggest cause of problems that we have.

Some of that is based on knowledge, on information about experience, but some is based on a fundamental problem within the protocol. Britain's position as a centre of distribution for the island of Ireland is under enormous strain. To give you one example, we have a member who makes transport equipment and buys axles from a German manufacturer, which come from a factory either in Germany or in Hungary. The axles are moved from that factory to another factory owned by the same company in Great Britain, where they are modified so that they are suitable for the UK's roads. The axles then move from Britain to the manufacturer in Northern Ireland and a tariff is applied at that point, because the axles are at risk of going back into the European Union.

This is a German manufacturer and the goods are coming primarily from Germany, but despite the fact that they require some modification in the UK, which the German company does, the goods are not being substantially altered so the origin of those goods is not being changed, which means that they do not achieve UK origin and a tariff is applied when they are brought into Northern Ireland. That is the sort of nonsense

in the middle of the protocol that manufacturers are trying to deal with. You can multiply that across hundreds—or thousands, potentially—of different commodity lines and different commodity codes.

When goods are brought in from across the world, or indeed even from the European Union, if the origin is not changed to a UK origin, friction through the means of rules of origin and tariffs are applied when they arrive here. We need a fundamental review of the protocol at the Joint Committee to look at that at-risk status first. Why should these goods apply whenever they are being sold into the UK? Why are we being charged tariffs because things are being distributed or there is a minor modification made in GB? Why do we pick up those costs and those frictions that appear at that point?

There are issues. There are problems. This is not working out exactly the way either the UK or the EU envisaged. We are well used to that in manufacturing. You bring in a new piece of machinery, you work hard and quickly to get it to 80% of productivity, and then you work hard over a protracted period of time to achieve the other 20%. This is exactly the same experience. Problems need resolving. One is the at-risk test and another is to ensure that Britain can continue to be a centre of distribution for Northern Ireland.

Lord Caine: That was both very clear and deeply concerning. Stuart, can you briefly address the point about GB businesses deciding that it is not worth a candle to supply the Northern Ireland market?

Stuart Anderson: Broadly speaking, trade has held up relatively well, but we are cognisant of the fact that that is because of the extension to the grace periods for parcels and for supermarkets.

A critical point that has not been discussed is the criteria for access to the UK Trader Support Service. At the moment, there is an easement for establishment and having a fixed place of business in Northern Ireland so that GB traders can continue to avail of the UK Trader Support Service without that. I guess we are all cognisant of the fact that that is holding things up.

The battle is ultimately the cost and the bureaucracy that attach to that. As the CBI, we have been engaged with a lot of GB members on the issues. It is about getting their heads around the complexity. In many cases, I am seeing some members making a choice between the products they will send into Northern Ireland based on the margin. That is problematic. When the margin is particularly small, choices are being made not to supply into the NI market.

The risk is real, but we understand that these issues have been flagged to the EU and to the Cabinet Office and are very much live at the Joint Committee table.

Lord Caine: I am conscious of time. Thank you very much for your excellent and comprehensive answers. I would of course have expected

nothing less from our witnesses today.

Q19 Baroness Ritchie of Downpatrick: Gentlemen, you are welcome. I feel as if we have talked about these issues not just over the last few months but over several years, because they were all envisaged.

Stephen, how would you characterise your engagement since January with the UK Government, including your meeting last week with Lord Frost and the Secretary of State for Northern Ireland, and the Northern Ireland Executive as regards the operation of the protocol?

Further to that, would it help if the UK Government were to start highlighting the benefits of the protocol, notwithstanding the issues that require modifications that you have already highlighted, to underpin the future prosperity opportunities in Northern Ireland that you referred to earlier? A lot of this stuff has been fairly negative and is off-putting for some people involved in business and for those who are consumers.

Stephen Kelly: On the first part of your question about engagement, I believe there has never been a time when more of the UK Government have been engaged in Northern Ireland than in the past number of months. We are in daily communication with departments, with HMRC and with other aspects of government, both at an administrative level and at a political level, on the implementation of the protocol. That is fantastic in many respects, and we have been able, with those short lines of communication, to identify problems, issues, concerns and opportunities quickly and get them acted upon quickly.

As you will know and as colleagues on your committee will know, after a while, Governments get a little bit bored and fed up and maybe move on to other things. Our sense is that despite the patience, the level of engagement and the real commitment we have witnessed and experienced over the last number of months, eventually people will move on because some other issue may be more pertinent or interesting to the Government. We are getting a little sense of that at the moment. Inquiries that would have been answered within a couple of hours are now taking a couple of days. The worry is even that not all parts of the Government but some parts of the Government may get bored and move on. We need to keep an eye on that.

In terms of the opportunity piece, it is enormously difficult to get that narrative picked up and understood, but businesses are doing that themselves. It may not dominate the media and it may not dominate the political conversation, but entrepreneurs are entrepreneurs and they spot opportunities where they exist. That is reflected largely in the numbers we have given already today. There have been more than 30 inquiries from within Invest NI and other inquiries that I am dealing with from people who are already here saying, "We can steal a march in terms of our position within the UK and the EU marketplace", and there are the numbers published today about the cross-border trade.

Despite the noise that is politics and the noise that is in the media, which is justifiable and is a concern, there is no doubt that businesses are

getting on with it. But when you ask potential foreign direct investors about the most critical factors for them when it comes to their due diligence and making an investment decision, the first thing they select is political stability. We absolutely need political stability to give them confidence that Northern Ireland is a great place to invest. Certainly, pictures of buses burning in parts of Belfast do not portray that.

They would much prefer our Ministers were out there engaging with them as investors and telling them about the opportunity that Northern Ireland provides. A slightly schizophrenic conversation takes place among the same Ministers at times about Northern Ireland being a great place to invest as well as about it being a terrible place to invest. That is a problem that investors try to find their way through.

Again, I come back to the words themselves from our manufacturing community. Half of them are saying to the Northern Ireland Executive, "Please identify those opportunities, grasp those opportunities and support us to deliver on the promise of the protocol and to deliver the prosperity that we know cements the peace in a place like Northern Ireland".

Q20 Baroness Ritchie of Downpatrick: In view of your different perspectives on the protocol, what baseline requests for action would you like to see the parties represented on the Northern Ireland Executive put to the UK Government and the EU in relation to the protocol? I am already aware, from living here and having represented a constituency in Westminster and the Northern Ireland Assembly, of those various stances. What is it in your opinion, representing your particular interests and your particular businesses in manufacturing?

Stephen Kelly: We are asking for four things in more general terms. The first is stability. Help us to sort out the politics and to decompress some of the things that are happening at the moment.

The second is certainty. As things keep moving around, it is difficult for people to make commitments, so we need the certainty of long-term solutions for some of these issues.

The third is simplicity. There is no doubt that too much attention is given to some of the things that are happening across the Irish Sea, and that can be largely simplified. Some of those are asks of the UK Government and some are asks of the EU.

The last piece is about affordability. All this is coming at a cost right now, and that needs to be addressed, because Northern Ireland's competitive position needs to be maintained.

I have talked from a manufacturing perspective. The single biggest ask from us is an expansion of the definition of what is not at risk to ensure that we can continue to worry only about the things that may work their way into the European Union. My colleague Stuart will likely talk about some of the SPS issues and some of the medicine issues, but for us it is about stability, certainty, simplicity and affordability.

Baroness Ritchie of Downpatrick: I am not ignoring Aodhán and Seamus, but this question relates more to Stephen and Stuart, so my apologies in that respect. Stuart?

Stuart Anderson: I agree with Stephen at a high level. When you look at the protocol and the legal text—and I said this in my initial remarks—the protocol is a dynamic framework. It involves dynamic alignment to the EU acquis, but it also includes references to keeping it under constant review. Therefore, it is intended to evolve over time.

In addition to what Stephen has said, build on the governance structures that are already there. From recent research carried out by Queen's University, it was clear that confidence largely rests within the business community for solving the issues with the protocol that are outstanding. When the joint chairs of the Joint Committee met with the business community back in February, there was some discussion about establishing a business consultative group. That has not happened yet, and as time goes on I would put that down as a specific practical request to see built into the current structures in the formal sense that is there to provide that expert consultation as it begins to progress.

In terms of minimising the red tape, there has to be a discussion about the flexibilities within the customs code. Shanker Singham talked last week about the use of the flexibilities in relation to bulking for supplementary declarations. We are starting to see some of the red tape begin to be reduced as the protocol implementation is rolled out. It is a question of focusing on the flexibilities both within the customs code and the acquis.

Finally, we need to agree pragmatic solutions that look to the aims and intentions that the protocol is supposed to achieve: avoidance of a hard border, protection of Northern Ireland's place within the UK market, and protection of the integrity of the EU single market. Those solutions are available, and we very much want to look to them. That is what I would add to what Stephen has said.

Baroness Ritchie of Downpatrick: Thank you very much, Stuart and Stephen. It may be useful for us to obtain a copy of the survey from Queen's University to inform our deliberations.

Stuart Anderson: No problem.

The Chair: We will certainly try to do that. Thank you. That was an interesting discussion.

Q21 **Baroness Goudie:** Good afternoon. I was pleased to hear about investment from colleagues earlier. I am keen to get as much investment into Northern Ireland as possible in the best ways.

Aodhán, how would you characterise your engagement since January with the EU as regards the operation of the protocol?

Aodhán Connolly: It has been sporadic and we have fed that through to them. We have good informal lines of communication. We have less on the technical implementation side.

Going back to the point Stuart made about the need for a business consultative group, we asked for that first last September and it has been on the cards ever since. We did get a joint agreement from CDL Gove and Vice-President Šefčovič that it would happen, but it has not been forthcoming as yet. However, about three weeks ago, as the Northern Ireland Business Brexit Working Group we had a rather engaging conversation with Rebecca Ellis, the director in the Cabinet Office on the NI-Ireland protocol and with Marie Simonsen, her counterpart in the EU. That was a wide-ranging discussion.

There is a good way to sum up all this engagement. It is welcome. But I can only back up what Stephen was saying earlier on. The UK Government are throwing the kitchen sink at this. I have never been as popular in my life when it comes to HMRC, Defra, BEIS and everyone else.

But while the discussions are welcome, the business community now needs to see delivery of tangible benefits. We need to remove the politics of this. Northern Ireland, and especially the business community, can no longer be that football in the game of soccer going on between the EU and the UK. Most of all, we need to see that our faith in this process is well founded. We have been as pragmatic as possible. We have jumped through hoops. We have put forward solutions. We have talked to lots of people on all sides. Our bona fides in this process are beyond reproach.

Now we need to see that both the EU and the UK, as their commitments and the preamble of the protocol say, remain determined that it will be implemented with the least disruption to Northern Ireland communities. That has not happened. We have seen disruption. We now need the discussions to keep going on. In fact, the discussions should intensify. But, by the same token, we need to see tangible delivery.

Baroness Goudie: I agree. You have to keep talking, but you have to have the endgame as well. That is absolutely vital. Never stop talking, because that would be disastrous. Seamus and Stephen, what practical steps would you like to see the Irish Government take?

Seamus Leheny: I will come in there first, Baroness Goudie. It is about simplifying the passage of goods going through Dublin port. That is the major obstacle for us. A lot of it comes down to identity checks. Before I joined this meeting today, I had a meeting with officials tasked with the digital assistance scheme, a government scheme that looks at how we can use technology to improve the flow of goods not just for GB and Northern Ireland but for the wider GB and EU so that there is a benefit for all UK industry.

I will give you one example of a solution we have come up with. At the moment, EU legislation states that if a consignment of food produce

enters the European Union, a human physically has to do an identification check on the truck. Legislation says that a person must look at the seal number on the trailer. We have come up with a way that uses a mixture of GPS technology and smart seal technology. The truck is sealed electronically. Every stop and every consignment in that trailer is fully traceable and the data is in real time. We reckon that we can do that using technology without a human. If we load something in London, drive through Holyhead to Dublin and deliver in Belfast, that technology can give confidence to the EU and Irish officials that loaded in the lorry is exactly what it says. There is full traceability of that load.

Aodhán touched on this earlier. We have been pushing the UK and the EU for a long time for an audited movement scheme, or a trusted trader scheme as such, for moving goods from GB to Northern Ireland. That could form part of it.

If I had one big wish to ask the Irish Government, it would be to create a green channel at Dublin port for goods going through for Northern Ireland and for accredited operators and trade flows going through. That would benefit Ireland just as much as us, because they would get that shipping volume back through their port, which would support their own jobs at Dublin port.

Stephen Kelly: Absolutely. Seamus's suggestion there would be the number one. I would add that there is a misconception about Northern Ireland's place in the EU's market. We are not in the EU single market. Our goods can freely flow in the EU's market, but we do not have the other freedoms in terms of what that market provides.

An element of that is the recognition of professional qualifications. My colleague Stuart has led on this piece of work in particular. We need bilateral agreements to allow our construction workers and our engineers. Manufacturing now is more than just making things. A whole level of service comes alongside that, whether it is commissioning bits of machinery or whatever. We are not part of the EU single market, but there are other elements of what would have been EU single market membership that we need for our goods to freely flow. I would certainly pick on that recognition of qualifications as that particular element.

Q22 **Lord Hain:** Thank you. This is fascinating evidence you are giving us all. Thank you very much to each of you.

Something has just popped up that says that the BBC Belfast business editor is saying that Northern Ireland exports to Ireland are up 44% and Ireland exports to Northern Ireland are up 22%.

What practical steps can the UK and EU take through the Withdrawal Agreement Joint Committee and the Ireland/Northern Ireland Specialised Committee to mitigate some of the rough edges of the protocol on businesses based in and trading with Northern Ireland?

Linked to that, some commentators have said that up to 80% of the current checks and controls could be eliminated if the UK Government

were to agree on sanitary and phytosanitary measures with the EU. That would surely massively reduce trade frictions and some of the problems you have been talking about. How have your members reacted to Lord Frost's statement on Monday that he is prioritising doing free trade agreements with other countries over reducing friction for Northern Ireland businesses?

Aodhán Connolly: Thank you, Lord Hain. That is an interesting question, and luckily we have four hours to talk about it, or not.

A lot of this will come down to what they can do and what they cannot do, and a lot of it has to do with the political realities as opposed to the trade possibilities. For us in business, we are pragmatic and we will look at the trade possibilities. They are not always possible. We need both of them to up the ambition. There needs to be a lot more ambition. We need to hold them to the list of commitments they made to us, especially in the preamble to the protocol.

The trusted trader scheme is about having a certified and auditable supply chain with a green channel at ports. Some 70% of the value of the goods that cross GB to NI are for retailers' shelves. If a trusted trader scheme is based on the low risk of those goods entering Northern Ireland and as wide a group of goods as possible and as wide a group of traders as possible, it removes a lot of friction and keeps prices down for NI households, but it also reduces time spent at ports for traders. That will release that capacity among officials to deal with wider customs issues.

I go back to the fact that we need that consultative group to be set up. It needs to be at the high level and at the technical level. Believe me, every day is still a school day for me, and customs experts and SPS experts need to be having constant conversations.

We need an urgent solution for goods at risk, because it is now becoming a barrier of trade that puts some businesses in an unsustainable position. Quite frankly, the definition of "at risk" is far too wide and has severe cashflow and supply implications for Northern Ireland businesses, particularly manufacturers.

We need to extend and embed the UK Trader Support Service easement. Basically, it says that if you do not have a certain checklist to say you are established in Northern Ireland, you cannot take part in that easement scheme. That will not work for a lot of GB suppliers who do not have a presence but send a lot of goods to Northern Ireland. That friction will either stop either goods coming or make it more expensive for goods coming to the end user.

There needs to be some qualification of the rules of origin. There is so much confusion at the moment about that. Our ask is simply for clarity.

Lord Hain: Can this all be done within the Joint Committee machinery?

Aodhán Connolly: It depends how much you want it and where the political will is. If a trusted trader scheme and the SPS stuff was in the

agreement, quite rightly, as you say, somewhere around 80% of the checks and about 70% of the paperwork required and a lot of the cost would go.

There are a lot of different types of veterinary agreement. As I said, the New Zealand style involves large shiploads of three or four commodities with very little paperwork. The Swiss style has dynamic alignment and 229 other pieces of agreement with the EU underpin that relationship, so it is not a standalone agreement and you are giving up a bit of sovereignty. I will steal Stephen's lines. He always says that the UK has a huge bag of sovereignty at the moment and it depends how much it wants to give out to be part of other deals.

A veterinary agreement would solve a lot of it, but it depends on the style of veterinary agreement. Personally, I would like a Northern Ireland style based on the low risk and the fact that the goods coming in are of a significant standard for the single market. For me, the political will needs to be there and that is the falling point.

If we have a UK-wide veterinary agreement, it will interfere with the wider free trade agreements you have mentioned. There are things on the target list for the UK Government. We are talking about India, New Zealand and Australia at the moment. The big prize, of course, is the US. However, for us working in business, these things are ethereal. They are not there at the moment. But there is a level of friction between GB and NI that we do not need. Even if there was a GB-NI-only veterinary agreement that could work in whatever shape or form, it would be better, but the choice in this will be a political one.

Lord Hain: Sorry to interrupt. We are running out of time a bit. Stuart, could you add to those interesting points?

Stuart Anderson: Yes, I am conscious of time, Lord Hain, so I will be brief. The exam question for all of us involved, particularly the Joint Committee, is how to create long-term sustainable solutions that both create jobs and protect communities. The agreement of 8 December fell short of what was required to implement the protocol in a way that allowed goods to flow, particularly on the retail side. If the focus has to be on outcomes, we can get what we need from this. Again, I would emphasise what Aodhán said about the governance structures. Where does the business community fit into those governance structures, and how do we manage that on a long-term basis? But we need to have an eye on the strategic piece as well in the longer term.

Lord Hain: Do you feel threatened by the prioritisation of free trade agreements over making the protocol work for Northern Ireland?

Stuart Anderson: The reality is that there are a number of competing priorities at this particular time. Our focus from Northern Ireland is on making sure that the protocol works. We will continue to make the case that the protocol needs to work. While there can be NI-specific solutions, our preference would be to see EU-UK-wide solutions. Particularly in the

context of the border operating model not being rolled out at this point, we have yet to see the full impact of Brexit on GB. Yes, our preference would be to see that and our focus is very much on that.

Lord Hain: Finally, would it help EU understanding in Brussels if there was a recognised Belfast office for the EU?

Stuart Anderson: That question was discussed throughout the implementation process and was particularly challenging politically. The business community has had engagement, whether virtually or face to face, in recent times. Certainly the diplomatic posts being agreed and rolled out in London is helpful but, as time moves on, it is certainly helpful that increasing engagement between Brussels and Belfast is worked on and development by whatever means possible.

Stephen Kelly: I can add to that, Lord Hain, in a more direct fashion. We have a full US consular mission in Northern Ireland. We have a Chinese mission in Northern Ireland. Those are two of the three large trading blocs in the world. The one trading bloc we have on our doorstep that has a legal treaty interest in us is the European Union. It makes absolute sense to have that presence in Northern Ireland.

Q23 **Lord Hannan of Kingsclere:** Thank you very much to you, gentlemen, our witnesses. I am much better informed than I was a couple of hours ago. You have been incredibly thorough and comprehensive. It is a real pleasure to listen to businesspeople, who are so much better than grandstanding politicians at engaging in practical detail.

I wonder whether I could ask you to apply a similar sense of pragmatism to the alternatives. For example, an idea that is being kicked around is that of mutual enforcement. The UK would undertake, unilaterally but bindingly, to prevent the penetration of the EU single market with illicit goods. Could that be done practically? What would be the pros and cons versus either the status quo or the status quo with the amendments Aodhán set out?

Perhaps I might put that question to Stephen, who was very fair-minded when I last met him in Belfast in the run-up to the referendum, as he has been today. I wonder if he could bring a similarly comprehensive outlook. How would he assess the alternatives?

Stephen Kelly: Lord Hannan, it is good to see you again. You were kind to come to our pre-referendum debate at the Customs House in Belfast. We had a good debate that day, which was great.

Everyone is in a constant search for alternatives. In fact, it is baked into the protocol as well that issues are resolved as the environment changes both in the UK and in the EU, and that there is constant discussion. These things can be removed or enhanced as the case may be. We engaged absolutely intimately, for instance, with the Alternative Arrangements Commission members, who have now become friends. I got Shanker Singham and Frank Dunsmuir to fly here to Derry, which no one does often. I put them in my car and drove them around for a day and

introduced them to lots of people. There has been a constant search, which continues, for ways to remove any risk and any friction.

The proposal for mutual enforcement fails the three basic tests for what the borders are about, the purpose of those borders and what the controls should be. Professor Katy Hayward has done quite extensive work on the purpose of a border and those three tests. I will share a link to that piece of work with the committee clerks, because it will bring a similar level of clarity to that discussion.

Secondly, little is said about SPS, and the authors of mutual enforcement reflect that in their analysis. The vast majority of the frictions you have heard about this morning relate to those SPS issues. If mutual enforcement is to be a long-run replacement of the protocol itself when the opportunity presents itself, it needs to answer that exam question. At this point in time, the authors admit that it does not answer that question as thoroughly as it needs to.

Lord Hannan of Kingsclere: Could I put the same question to Aodhán? If there was a viable replacement rather than an amendment, would it be mutual enforcement or something else?

Aodhán Connolly: I share both Stephen's and Katy's idea about mutual enforcement, and there are some good principles, but we are now having the same discussion that we had from 2016 onwards. Nothing off the peg or viable has been put on the table. I say this having looked hard and with great interest at examples from across the world such as the US-Canada border and the Norway-EU border.

When DExEU was still around—I am showing my age—I was appointed by the Government to the Alternative Arrangements Working Group to look at these areas. The stumbling block always seem to be SPS. If you have a container full of milk, you cannot tell which part of the milk came from northern cows and which part came from southern cows. It is the same with the processes there. That is quite a glib way of describing it, but that is the crux of this issue. On mutual enforcement, you are talking about SPS and you are also talking about different customs regulations. What level of intrusion would be needed to get both the evidence on SPS and what is being carried? What sort of bonding would be needed? The levels of complexity start building up.

That is the other point of this. Even if it could be done immediately, what is the level of checks, the level of complexity, the level of technology and the investment needed to do it in a way that satisfies the requirements of both the UK protecting its borders and the EU protecting its borders? What then would be the final cost to the end user? Should it be more expensive for our goods to be sold in the south or, vice versa, things coming in?

There is a cost implication. There is a technology implication. But the biggest one for me is that exam question about SPS. If we could solve that in an affordable way, we would be close to a solution.

Lord Hannan of Kingsclere: Thank you. That was comprehensive. In the interests of time, I will call it a day there and hand back to the Chair.

The Chair: Thank you very much indeed to our four witnesses today. It has been extremely helpful to have not only a clear analysis of some of the problems but a whole series of practical solutions. That is comparatively rare. Thank you also for drawing our attention to various other pieces of work, which we will certainly want to get hold of to advance our inquiry.

Finally, if there are other areas that you think this committee ought to be looking at when scrutinising the protocol, write to us and let us know what those would be. That would be helpful, too. On behalf of all of us, once again, thank you very much indeed for your evidence.

Now I need to quote the magic words: my Lords, the meeting is now concluded.