



Northern Ireland Affairs Committee

Oral evidence: [Northern Ireland and the EU Referendum](#), HC 760

Wednesday 3 February 2016, 9.30 am

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Members present: Mr Laurence Robertson (Chair); Tom Blenkinsop; Oliver Colvile; Mr Nigel Evans; Lady Hermon; Kate Hoey; Danny Kinahan; Jack Lopresti; Dr Alasdair McDonnell; Nigel Mills; Ian Paisley; Gavin Robinson

In the absence of the Chair, Ian Paisley was called to the Chair. At 11.27am.

Questions 1 – 62

Examination of Witnesses

Witnesses: **Professor Neil Gibson**, Director, Economic Policy Centre, University of Ulster, **Dr Leslie Budd**, Reader, Open University Business School, and **Dr Graham Gudgin**, Research Associate, Centre for Business Research, University of Cambridge, gave evidence.

Q1 Chair: Thank you very much for joining us. This is the first session in our inquiry into possible the implications for Northern Ireland of the result of the referendum, particularly with respect to Brexit, as it has become known. We are delighted that you are our first witnesses. Thank you for joining us. Could you introduce yourselves and give us a little bit of background of what brings you to this subject? We will start with Professor Gibson.

Professor Gibson: Thank you. Professor Neil Gibson; I am the Director of the Ulster University Economic Policy Centre, which was set up three years ago. Our job is to help Northern Ireland achieve its economic ambitions, so we have carried out a lot of research on corporate tax, skills, needs, etc. Our research centre is really focused on the Northern Ireland economy.

Dr Budd: I am Leslie Budd from the Open University Business School. I am a regional urban economist and, for the last two years, I have been special economic adviser to the Committee for Enterprise, Trade and Investment.

Dr Gudgin: I am Graham Gudgin. I am currently based at the business school at the University of Cambridge, but I am also a visiting professor at the University of Ulster and Chairman of the advisory board of Neil's research centre in the business school at UU. I was formerly special adviser to the First Minister of Northern Ireland, 1998 to 2002. I ran



the Northern Ireland Economic Research Centre from 1985 to 1998, so I have a long background in Northern Ireland.

Q2 Chair: Thank you very much. You are very welcome. What do you consider to be the key considerations for Northern Ireland of the whole EU debate and discussion? We will start where we ended. Dr Gudgin, what do you think?

Dr Gudgin: My own personal view is that the UK would be better off out of the EU but, for Northern Ireland, what is most important is how well the UK does outside the UK. As a first approximation, the Northern Ireland economy grows at about the same rate as the UK. It is a highly integrated part of the UK economic, monetary and benefits union, and anything that happens in the UK is very quickly reflected within Northern Ireland. If Brexit were to go ahead, the absolutely key thing for both the UK and Northern Ireland would be the trade arrangements. I assume it would be possible to make a free trade arrangement. It would be in the interests of the other EU states to do so, but it is very important that such an arrangement is made.

Dr Budd: I take the opposite view. I have publicly said before that I am pro-European Union as an economy, notwithstanding the issues around the eurozone and the other issues concerning its governance. My concern is that the Northern Ireland economy tends to underperform, given its capacity, and there is a lot going on there. I have been fascinated, particularly over the last two years, by a number of the activities.

Northern Ireland is significant because it has a long border with Ireland, and some of the issues may benefit from an all-island solution. In that respect, it is not different from the rest of the UK. The focus is too much on trade and not enough on the integration of global value chains of key sectors, of which Northern Ireland has some major global ones. It is how integrated the whole of the UK economy is, particularly Northern Ireland, and its potential to reach a larger market and access what are called economies of scale and scope.

Professor Gibson: What happens in trade agreements is critical, as Graham has said, and whether, in the event of an exit, Britain would make the same funding choices. Northern Ireland receives a lot of money from the EU, either from the agri-sector or actual EU structural funds. A critical decision would have to be made, as to whether those moneys would be replaced. That would be critical in a practical sense.

Secondly, the actual practicalities of it are what really matter to many of the residents in Northern Ireland. Will there be border controls? Will it be easy to cross the border to shop, to travel, for tourism, for flights to America, for example? A very common exit destination would be Dublin. The practicalities, which remain largely unknown to citizens in Northern Ireland, are also a very important consideration, much more than it would be anywhere else in the UK, I suspect.

Q3 Gavin Robinson: Good morning, all three gentlemen. Dr Budd, in your research you indicated there would be a 3% loss to GDP in Northern Ireland should we proceed with Brexit. Can we interrogate that figure a little further? Where does it come from?



Dr Budd: It was just an estimate from comparative growth rates over the last 10 years and evidence that was taken by the University of Cambridge. There is a great variation in what the loss will be. My point about this is that there is a great deal of uncertainty around these figures. Given the state of the world economy and its uncertainty, I would rather get to a position where you saw the alternatives. You could look at the evidence, look at the data and look at the risks.

Gavin Robinson: It is a guesstimate.

Dr Budd: Yes, absolutely. I said that, because the great difficulty when I was asked to do this was finding the data.

Q4 Gavin Robinson: Does it take account of what the likely Barnett consequences would be for Northern Ireland if there was a return of our revenue?

Dr Budd: No, because the budgetary situation is obviously complex and it would then depend on whether there was some kind of transition period for the scaling-down of EU funding through agriculture, structural funds and the peace process, and the degree to which some of the co-operation agreements across the border, which would help the economy, could continue or not. I am risk-averse.

Q5 Gavin Robinson: You guesstimate a 3% reduction, but you do not take account of the at least 3% uplift that could be available if revenue is retained in the United Kingdom and there was a Barnett consequential spend for Northern Ireland.

Dr Budd: No, I have not, again because there are uncertainties around that. I was asked to come up with an estimate. I looked at most of the evidence and I inferred it from the relative performance of the two economies. I hold on to a basic rule, which is: where is the theory, where is the evidence and where is the data? There is lots of theory, there is some evidence, but there is not sufficient data.

Q6 Gavin Robinson: Another bit of data was the figure of 8.6%, which you highlighted as the benefit of EU spend to Northern Ireland's GDP from 2007 to 2013. Is that a cumulative figure?

Dr Budd: That is a cumulative figure, and I did not say "benefit"; I said "the equivalent of". Again, I am not hedging, but I am always wary. It is a highlight, because often claims are made about impact on GDP when it is not the equivalent.

Q7 Gavin Robinson: Would it be less than 2% a year?

Dr Budd: Yes.

Gavin Robinson: Again, this could easily be offset if there were resources retained in the United Kingdom with the Barnett consequentials for Northern Ireland.

Dr Budd: It depends what those resources are spent on and it would depend, as Neil said, on what kind of arrangements you come to with agreements. My own view is that, at the moment, so many agreements are regional trade agreements with the European Union. They include air routes, etc. Some claims are made for particular countries, but again I would like to see more detail.

Q8 Gavin Robinson: Dr Gudgin was nodding along there with some of the questions. I wonder, sir, if you have a reflection because, when we get data, guesstimates or estimates, they tend to cloud the perception and the view in the discussions. Do you have any reflections on the questions I was asking?

Dr Gudgin: I have some firm advice for you on estimates. A fair number of studies have been done on the estimates for the impact on the UK. Whatever the impact on the UK is, it would probably be rather similar on Northern Ireland. What strikes me about those estimates is how very small they are. Most of them are within a range of plus or minus 2% of GDP. That is really within a margin of error; it means they do not know.

If you look at the methodology and the ways in which these studies have been done, all of them have different assumptions about whether we have a free trade agreement or not. You can pretty well predict the result from knowing what the assumptions are. My firm advice would be that it looks like the effect is going to be pretty small on the UK economy. Northern Ireland is rather different because structural funds and CAP are about 2% of government spending in Northern Ireland. That is not huge and could be covered from within the block, if you wanted to. A lot depends on the way the UK Government decides to replace or not replace those funds.

What you can say is that it would have plenty of money to do so. It would have £10 billion net savings that are currently going to the Commission that would not go. There is, by the way, another £10 billion estimated saving on cost of living.¹ There are very high duties on food coming into the EU. If we decided to reduce those duties and buy cheaper food on the world markets, the UK would save about £10 billion. Northern Ireland's share of that would be about £300 million or something of that sort, so there would be plenty of money around to replace any EU structural funds or CAP. Like everything else in this, there is total uncertainty. Everything depends on what the arrangements would be and, at present, we do not have a clue about that.

Q9 Ian Paisley: Gentlemen, can I first of all thank you for very clear evidence so far? This Committee is trying to get to the point where we base decisions on fact, not fears, and what you have given to us so far is very helpful. I just want to commend you for that. In terms of that issue of fact versus fear, one of the things that the media at home have been pushing is that this could affect the peace process and this could be the end of peace. Could you give us anything back on the impact this would have on the peace process? I know it is not your specialist subject—that is the economy—but it is important we try to address that in some way.

¹ Dr Gudgin later clarified that this should have said “another £1 billion estimated saving on cost of living”



Dr Gudgin: Shall I do that? Since my view is that Brexit will not have much effect on the Northern Ireland economy, it is very hard to see that it would have much effect on the peace process. I must say that I found Enda Kenny's comments on this last week rather scurrilous.

Dr Budd: I agree. That is scaremongering. The peace process has been really important in helping the Northern Ireland economy and opening it up, and a number of developments have gone on. I did some work for the Iraqi Government in 2010. It was a spatial outline strategy on a regional basis, and the forecasts were conditional on a peace dividend, which was not established. The peace dividend here has been established if you look at the change in tourism. The focus of Northern Ireland has shifted more from the politics to the economics, and personally I would welcome that.

Professor Gibson: To go back to the practicalities of it, it will damage that process only inasmuch as you let it. It depends on the trade arrangements you have. It depends how easy it is for people to visit. A border can create problems, but only if you let it. It all depends on how free movement is. Let us be clear: from an economic point of view, businesses do not need to be told twice to trade, when there are opportunities. Those trade agreements will not change the nature of those opportunities. It is all about currency risk. It is the economics that matters here. If there is good business to be done, it will be done whatever the outcome is, depending on the terms of trade.

Q10 Ian Paisley: Dr Budd, you said in your opening comments that the European economic situation affects the global value chains and we that we should look at them. Could you extend that about the global value chains? A lot of this extends well beyond the borders of the European Community.

Dr Budd: They do, but in fact there has been a lot of reshoring. They are unstable and it depends upon the economic cycle. For example, the matrix sectors of telecoms and ICT, life and health sciences, agri-food, advanced materials and advanced engineering tend to be focused on firms, many of which are EU-based, and are looking to the EU market and linking those. If you look at the car manufacturing industry, it is essentially regionally based, in the Americas, Asia, etc. They are clearly sectors, but it is irrelevant whether it is the EU or not. One of the important things about the evidence from the OECD is the role of global value chains, particularly within Europe as a whole—I am not talking just about the EU—as they are an important driver for giving small and medium-sized firms access to export markets. There is a lot of evidence on that from Austria in particular.

Q11 Ian Paisley: On that, our UK car market—Nissan and Jaguar Land Rover—sells more outside of the EU, according to the most recent statistics. Our bus manufacturing companies are very precious to me in North Antrim. Their biggest market apart from London is outside of the EU.

Dr Budd: That is just part of the economic cycle. There has been a rapid downturn in the Chinese economy, notwithstanding its uncertain statistics. It really depends where you are in the cycle. The European economy has been underperforming, frankly, because of the farrago of the eurozone, which I am not in favour of. You have to look at it over the term.



Increasingly, you have to look at regional markets. I have argued for a long time that people misinterpret globalisation. There is a distinct regional structure. The issue is whether you can take advantage of those non-European markets, and I stress “European”, rather than new markets. We have seen the BRICs rise and fall, particularly Brazil and China, less so India. The commodity economies have rapidly declined. That is part of the uncertainty. My argument is that I would like to look at how the global value chains link back, and what benefit and disbenefit they may be to the UK economy, in relation to the whole of Europe and Northern Ireland in particular.

Q12 Ian Paisley: I understand that. As long as we are in the chain, that is the important thing, not our membership of the EU. I have a general question finally. Graham, you have already touched on this, but it is important for us for the record. Can you confirm that, of all the money spent by the European Union in Northern Ireland, its origin is from our net contribution as a kingdom to the EU? Is that right?

Dr Budd: It comes from the whole pot and then is redistributed, yes.

Ian Paisley: It is effectively our money.

Dr Budd: There is a problem with some of these arguments. I am a dyed-in-the-wool Londoner, but a lot of the boosterism of London is bad economics and bad politics—that somehow London subsidises the rest of the UK. It is false, if you take an overall balance. People could argue in London that we should not send money to Northern Ireland. That is nonsense.

Q13 Ian Paisley: Barnett has established all that. We are all taxpayers. We all have an equilibrium. Could you confirm the point that the money the EU spends in Ulster, in Northern Ireland, is effectively derived from our net contributions, as a kingdom, to the EU? Is that correct?

Dr Budd: Yes, absolutely.

Dr Gudgin: Last year, we contributed £14 billion to the EU and we got £4 billion back, so the net contribution was £10 billion. Northern Ireland’s structural funds have come out of the £4 billion that comes back our way. If I understand your question correctly, Ian, the answer is yes.

Q14 Lady Hermon: It is very good of you to come. I have a series of questions and they are interrelated. What did you make of the Prime Minister’s deal that was announced yesterday? The Prime Minister seemed very pleased with it. The newspapers today did not seem very pleased with it. Graham, it is very nice to see you after all of these years. We will start with you.

Dr Gudgin: Thank you. It is very nice to see you as well, Lady Hermon. The deal is, and always has been, fairly irrelevant to the big issues. It is a kind of face-saver. It is a matter of having something to say and put before the electorate in the referendum, but it is largely

irrelevant. Perhaps the most positive thing you could say about it is that David Cameron clearly wants the UK to stay within the EU.

Lady Hermon: Why do you think that would be?

Dr Gudgin: He is a conservative. He does not want things to change, I guess.

Chair: He is a conservative with a small “c”.

Dr Gudgin: Yes, but he is a Conservative with a big “C” as well.

Lady Hermon: Is that your analysis of it?

Dr Gudgin: It is a political and economic risk to make such a big change and many people, including the Prime Minister, are unwilling to take that risk.

Lady Hermon: You do accept that it would be a huge risk, politically and economically.

Dr Gudgin: Yes. As Professor Gibson has said, everything depends on what arrangements we make and no serious engagement has yet happened and will not happen. No serious engagement or negotiations will happen until we decide to leave, so I do not regard the negotiations over the last couple of months as being in any way serious. On the other hand, we say that the Government have been quite clever. They want to stay in the EU, but they are trying to get some small, but useful, improvements for the UK and they are perhaps not be sniffed at. I would not be too critical, but it is not relevant to the big question of whether we go or stay, in my view.

Dr Budd: Similarly, of the original nine points that we negotiated, some of the studies on the economic impact and the four-year ban on in-work benefits, particularly for Polish immigrants, would agree that people should not come with in-work benefits. It is whether you go into negotiation and what your purpose is. The purpose is very domestic and does not take account of the increasing complexity of 28 member states. I think, in a sense, the Prime Minister is on a hiding to nothing. As Graham says, you have to come with something, but it is not comprehensive. My own view is that, whatever the outcome of the referendum, at least for the Government and their party, this issue will not go away, because this will come up again. The political hope was that having a referendum might bury this issue once and for all, but I do not think it will. The uncertainty and the risk continue, it seems to me.

Lady Hermon: Is that even after the referendum?

Dr Budd: It depends who you get in government and what the subsequent arrangements are. For example, if we voted to leave and we got beneficial trade arrangements and practicalities, as Neil said, some of that issue with other European partners and negotiating may go away, but again it is highly risky and very uncertain.

Lady Hermon: That would be total uncertainty, to quote Dr Gudgin.

Dr Budd: Yes.



Professor Gibson: I would add that the challenge here is this conversation is always going to be unbalanced or asymmetric. We are going to know what it looks like to stay in. From the Prime Minister's feedback, as an economist, there just was not enough in what was published to say whether we had got anything out of those negotiations. He said himself that we need more detail, so we do not know how strong they are. Even as we come close to this, nobody is going to know what the trade agreements would look like. They are not going to be entered into in advance. That is going to make it a difficult conversation for much of the public, because they are not going to know what the alternative would look like. The question is in whose interest is it to spell that out. Who has the power to articulate what that alternative would look like?

On Graham's point earlier, if we ended up with a trade agreement that allowed in much cheaper food, it would have significant impacts on the Northern Ireland agri-food industry, for example. Again, that sector would be thinking nervously about what the trade agreements would look like for their sector. Of course, we are not going to know any of that. The whole complexity of trade agreements, and we see how long they take, add a huge level of uncertainty to the decision, which is a very important factor in how people will decide to vote.

If you read what was written about what Cameron came out of the negotiations with, the layperson would not be sure what that tells them and what has changed. It is going to be the same when trade agreements come up, so it is going to be a very different conversation with business from that with the public, in terms of how they frame their decision.

Q15 Lady Hermon: Just leading on from that, if the people of the UK were to vote to leave the EU, though there is obviously the uncertainty that you have just spelt out, which countries would you expect to be our main trading partners? For example, let us look in particular at what the economic relationship would be with our nearest land neighbour, and that would be the Republic of Ireland.

Professor Gibson: That would fundamentally come down to business decisions. We have to think about the extent to which exchange rate risk already provides a complexity for businesses to deal with. Where they have made a decision that trade is worth doing, it would be both in Europe's and the UK's interest to have a very open trade agreement, in which case it is hard to see how those interactions and our trading partners would change, particularly in the medium term.

It is rather more an issue about whether we would sign different agreements with new locations not in the EU or that the EU has different conditions for. It is pure speculation what that would look like. In terms of our relationship with the EU, those trading relationships, north and south, would continue to be made on business decisions—whether it is in the interests of firms to trade. That is really down to basic demand and supply; what do we make that they need and what do they make that we need? It is that basic. Those decision-making processes would not change at all.

If you look at the studies, the more substantive issues are whether it affects inward investment into the UK or any sectors that are currently in and operating in Northern Ireland. In terms of how we trade and who we trade with, I do not see any reason that should change massively, because it is not in anyone's interests to set up any



anti-trade agreements or trade tariffs that would make it more difficult. It is not going to help the businesses in either economy. If we were talking only about Northern Ireland, it might be an issue, but the UK is such a huge trading partner for the EU that it is in nobody's interest for that trade agreement not to be relatively free and beneficial for both.

Dr Budd: I do not share Neil's optimism, in the sense that there are transaction costs, and if you think about the relationship of Donald Tusk with the existing Polish Government, there are those kinds of sentiments. A lot of the EU has tied up trade agreements with potential partners, with the exception of Chile. There is the EU-Andean regional trade agreement. The transaction costs of going to each country could be very large. Companies may have to decide whether they increase their exposure to the UK or unwind it a bit. That is uncertain. I take with a pinch of salt what chief executives say about what they will do in the future, whether to stay or go. As Neil says, it depends what sector it is and who you are supplying. Again going back to global value chains, 50% of existing EU trade is intra-firm, and that may change.

The other thing that is coming over the horizon is the Transatlantic Trade and Investment Partnership, and the implications of that. Again in my view, to quote Donald Rumsfeld, we are dealing with "unknown unknowns" or uncertainty. People criticised him, but he was being very astute. He was talking economics and the difference between risk and uncertainty. To risk you can apply probability distributions; to uncertainty you cannot. At the moment, I like Neil's optimism, and that may be the case, but it could take a number of years and the transaction costs could be very high. I personally do not like uncertainty in economic terms.

Dr Gudgin: Northern Ireland manufacturing already sells twice as much to the rest of the world outside the EU as it does to the continental EU. Those rest-of-the-world markets, many of which are in Asia, are faster growing than the EU. The EU itself is a slow-growing market. It is something of a drag anchor on UK and Northern Ireland trade. The answer to your question is Northern Ireland is already selling a lot to the wider world and would continue to do so. As Neil said earlier, they would look for opportunities and exploit them wherever they can be found.

Q16 Lady Hermon: As a final question, companies from various countries—America and Canada come to mind—have already established operations in Northern Ireland and have come since the signing of the Belfast agreement. Are you aware of evidence that, if the UK voted to leave the EU, it would affect their businesses? Would they continue in Northern Ireland? Would we lose jobs? Would they continue to recruit people? How would it affect those companies?

Professor Gibson: That is hard to say. To Leslie's point, firms do not like uncertainty, so the status quo is quite advantageous for many. This is only anecdotal evidence, but in most of the big corporate conversations I have been having this is a big issue, but there are issues above it on the list. The worry about China, the worry about the global economy and the worry about finances in terms of corporate boardrooms seem to be much more prevalent. I would not wish to speak for them, but they seem to be saying that the bottom line is whether people want their products and price points. The currency exchange rate and all those issues seem to be dominating.

It is not that they are not taking it seriously, but it seems to be rather pragmatic in the sense there is a lot going on that is materially affecting this year's P&L, and that seems to be dominating. That is partly because they are already dealing with exchange rate issues and those matters that would potentially be quite significant if they were part of this discussion but, because they are already there, this seems to be lower on the boardroom agenda. In the talks I have given, it comes up as one of the things they would like me to speak on, alongside the living wage and austerity. It does not come out as the sole issue to discuss, which maybe says something about how significant they feel that it might be.

Dr Budd: Part of the problem is getting the data. For example, a lot of trade data is final goods, but a lot is intra-firm. Let me give you an example. Vale is a big nickel producer in Canada. It ships a lot of raw nickel to Finland, where it is smelted and then exported to Norway, where it is processed. In the trade data, it is only counted between Finland and Norway. Similarly, the two largest companies in Northern Ireland are Moy Park, which is a Brazilian food processor, and Bombardier, which is Canadian. Although they are non-EU, the linkages across are important, because of where we are located regionally. At my age, I should not believe in rationality, but I still do and I really do try to search for data, because data tells you stories, and sometimes you cannot get it. They become guesstimates, but that is my concern.

Dr Gudgin: Again, since only 8% of Northern Ireland's manufacturing trade goes to the continental EU, it is not the biggest issue in the world, whatever happens. If under very unfavourable conditions we lost a quarter of trade, it would be 2% of sales. It could be made up elsewhere relatively easily, so I do not regard it as a huge issue.

Q17 Mr Evans: Professor Gibson, the way you have described the process leading up to the referendum and during it, it seems that it is not in the interests of the Prime Minister, who wants to stay in the European Union, or Brussels, which wants Britain to stay in, to reveal their hands about what is going to happen afterwards. It is akin to somebody who is married to somebody who has really irritating natures being offered a divorce and then immediately going on a blind date. Ian was talking about getting through to the facts, rather than the fear. You have spoken about the amount of money that goes from the European Union into Northern Ireland, and we established that it is UK money anyway. Are you able to indicate how much of that £4 billion goes to Northern Ireland and where it is spent?

Professor Gibson: I answer this reservedly, as someone who wants to put on record that he is married to someone who has no irritating features, but I make no comment on blind dates.

Ian Paisley: Did your wife tell you to say that?

Professor Gibson: Yes, that was the script I had. There is some evidence on where EU money is spent, in terms of structural funds or the CAP. We can look at some of those numbers and we can look at the figures. Leslie has some of them here; he can look at some of the numbers and speak to those.

The question is whether, as you have rightly articulated, a Barnett consequential would mean we would spend in the same way. Could we spend in the same way? Would the UK Government have different priorities for this? Would it necessarily go into the block grant



as a Barnett consequential or not? This means, as you rightly articulate and is my greatest fear, we will go into this without the evidence of what the counterfactual is. You will not know what the alternative would be, because there is nobody in a position to make those trade agreements at this point. You have a narrative for both the business community and the public that would be naturally asymmetric. We will have one story of certainty, whether you like that certainty or not, and one of uncertainty, making that a rather challenging conversation. To Graham's point, if he wished to articulate a vision that was more favourable, it is very difficult to do, even if you believe that to be the case, which makes it very difficult to feed in.

In terms of how the money is spent, you have two questions. You have how much money has come into the agri-food sector or through the EU structural funds. Of course, any money is going to be helpful, but is it the best thing that could have been done with that money? The Northern Ireland farming industry is hugely critical to the future of the Northern Ireland economy, but would it be supported in the same way? For EU structural funds that have primarily gone to particular types of projects, and obviously border areas have been very significantly affected by that spending, would the UK or the Executive make the same choice in terms of allocating that money if they had it? Will there be a position put to anyone to say that, as a first assumption, we will work on the premise that we will continue the existing financial subsidies in the same way? Without that, you go into this with great uncertainty, which is going to make it very difficult for any exit campaign to really get much momentum, because that uncertainty will ultimately weigh heavily, because people will not know.

Q18 Mr Evans: There may be other aspects of Northern Ireland that are asking for support and currently not getting it from Brussels, whereby the £10 billion that we talked about is going to come back in as well as the £4 billion. That support may come because the Government have more money.

Professor Gibson: Very importantly, EU state aid laws, in terms of what firms you can support and in what way, are quite a significant impediment to some of the things that you might choose to do. Again, it presupposes that, if you had the same amount of money, you would still be taking some away from some recipients. You would have to think of the consequences of that but, yes, you are quite right that there would be a decision to be made to say whether we wanted to provide capital grants or other types of support in a way that we cannot currently because of EU laws.

Dr Budd: There is always a question about funding. The majority of funding, just over £1.6 billion, goes to agriculture in Northern Ireland. Then the largest amount is the European Regional Development Fund, which is about £307 million. These budgetary arguments could be complex, because you do not know what the impact would be of ending Barnett if there is a fuller devolution settlement. For example, the estimates for the loss of Barnett post-2017 at a 12.5% corporation tax rate are between £300 million and £700 million, but they are estimates. If you also lost that funding, the multiplier effects may be more negative than if you did not, but again it is an uncertainty if you put those together.

Clearly if we get Brexit out of the way, the devolution project is unfinished in that settlement. The argument is also that, in one of the most centralised governmental

systems in the world, whether that £10 billion would be redistributed and island-shared. Personally, I would redistribute it from London, but that is another matter, and the large economic rents that are generated there. Again, those are political decisions in the future that are uncertain, so you are adding to the uncertainty.

I have one last point. As Neil says, all money helps, but does it generate economic activities and does it generate economic value so that, at some point, you would not need that funding? Those again are guesstimates and estimates. It depends how you model it. Neil is a modeller and I am not.

Dr Gudgin: Can I just make one point that has not been made so far? On the latest figures, Northern Ireland is probably about neutral on EU funds, i.e. it probably contributes as much in taxes to the EU as it gets back. That has not been the case in the past but, because of the way in which the UK's net contribution has grown in recent years, it is probably the case now. We are beyond the point where we should look at Northern Ireland as being a net recipient of EU money. Most of the rest of the UK contributes much more than it gets back, and Northern Ireland is probably about in balance.

On what it gets, the really important thing is the CAP and agriculture. Something that receives rather little publicity in Northern Ireland but has long been true is that virtually the whole of farm income in Northern Ireland, by which I mean the income of the farmers and the businesses, not the labour costs, is really covered by the CAP. If that subsidy was not there, the farming industry in Northern Ireland would not make any money at all. It is marginal producer in this sense and that is something that nobody in Northern Ireland has been very keen to publicise. Northern Ireland agriculture was well subsidised before we joined the EU and I assume that would continue afterwards. That is a pure assumption and, as Neil says, is part of the uncertainty. I can imagine many farmers in Northern Ireland saying that they would rather not have the uncertainty and will stick with what they have, thank you very much, because it is quite a lot of money.

Q19 Mr Evans: This leads me to my final question, which is for all three of you. The expectation is that something will be signed off in February and there is going to be a June referendum. That may be expedient for other reasons, but do you believe that the timescale between February and June is sufficient to be able to explain many of the unknown unknowns and indeed clarify exactly what the position of Northern Ireland and the UK would be outside of the European Union?

Dr Gudgin: The answer to that is: clearly not. Nothing would be clarified over that period. All the uncertainties will still be there. I had rather warmed to the idea of a double referendum. What we would like to do? Then have a negotiation, and then another referendum on whether we accept the terms of that real negotiation. We have not had the real negotiation at all, in my view.

Like Neil, I am also an economic modeller. I do forecasting for the UK economy, and the outcome under austerity is not very good, so I can appreciate the hurry or the anxiety of the Prime Minister and the Chancellor of the Exchequer to get on with this quickly. If it was left a year, unemployment in the UK might start rising again. As so often happens in a referendum, people just express a general dissatisfaction with the Government, rather

than voting on the specific issue. If we want to stay in the EU, I would have the referendum next week and do it as quickly as possible.

Dr Budd: I agree it is too soon. This inquiry is useful. For example, the Financial Services Authority had a statutory duty to inform the public about financial services. It signally failed. I would like the Treasury to have a statutory duty to inform the public about economics. I like the fact/fear dichotomy, in the sense there is a lot of fear on both sides. There is a lot of hot air, but let us cut to the chase. Let us look at what is on offer. That could take some time. Again as Graham said, it is a bit like the Scottish independence referendum. There was a lot of myth around that about Scottish exceptionalism. There is a lot of myth about the EU. The UK has always been part of Europe historically. There is also a myth about some Arcadian future in a world of free trade. It is risky.

Professor Gibson: It will not be enough time to articulate both sides fully. However, even with much longer, you would still have the asymmetry. You still would not know the trade agreement, so you would be left with a huge uncertainty, however long the time before the referendum. It will be very important, however, to make sure of the evidence. There are going to be a lot of lobby groups, so cutting through the noise of that is going to be important.

In particular for Northern Ireland, as I mentioned at the outset, the practicalities matter much more with a physical land border than they do anywhere else. To the extent to which a lot of the national debate may be about the City of London and the impact there, there are some very specific issues for Northern Ireland that will require giving the public a fair chance to make a fair vote. They will need to understand what the practicalities look like, which at least should be something that could be articulated in a way that the trade picture could not be.

Chair: I still have seven Members who want to come in on this session, if we could have brief questions and brief answers, as far as possible, please. Tom.

Q20 Tom Blenkinsop: Professor Gibson, you talked about trade agreements, the asymmetry and the lack of knowledge of what those agreements may be. Dr Budd, you talked about TTIP. We know one trade agreement coming up on the horizon, which will be agreed by the European Union this autumn, is Chinese MES. That is far more profound than TTIP. Do you think the UK, and Northern Ireland itself, is better positioned to negotiate with China's MES status as an individual nation or country or as part of an economic bloc like the EU?

Professor Gibson: It is hard to say. I have some great reservations about some of the sectoral impacts there would be on Northern Ireland but, when it comes to that sort of negotiation, the complexity of negotiating with 28 states' interests makes that process even more difficult. The UK is not a small economy on the world stage, by any means, so there is not a sense that it is going to be bullied in any trade negotiations. It is a partner that many of these large economies, China and others, will want to have, and there is a rather more simplistic nature of one economy.

Certainly if we were talking about Northern Ireland having those negotiations, there is the skills issue, in terms of the people who are doing the negotiations. In terms of the UK as a whole, I would be fairly confident that it would be able to make very strong trade



negotiations, based on its own very specific needs and requirements. On that particular issue in this, I do not see a huge benefit in the trade agreements that the EU can negotiate, as distinct from what the UK could do on its own.

Dr Budd: You are not talking about 28 member states of equal weighting. It is qualified majority voting, the relative weights and where the markets are. It seems to me that those kinds of agreements could accelerate the completion of the single services directorate, the single market and the single digital market, all of which would benefit the whole of Europe, whether Britain is in or out, in that sense, because it would create a larger market in those areas. Again, it is another unknown on how those negotiations would do and with whom the Chinese would want to negotiate in terms of their locational decisions for Chinese companies.

Dr Gudgin: I find it very hard to say. Although I have a Chinese PhD student, there is a great deal about China that I find very hard to understand, so it is not a question that is easy to answer. The point made by Neil Gibson is a good one. If we were negotiating directly with China, we would not have to take into account the sensitivities of other European countries. For instance, there is a high tariff on clothing and textile imports into the EU. That is partly to protect the Italian clothing industry. That is quite a big issue to China, but we have much less interest in that. We used to have a big clothing industry in Northern Ireland, but we do not anymore. We could offer free trade on clothing and they may reciprocate in other things, but the complexities here are enormous. I would not like to give any sort of definitive answer to your question.

Q21 Tom Blenkinsop: I have just one more follow-up question, Chair. At the moment, the European Union is negotiating its energy union regional discussions and energy policy is going to be profound in relation to manufacturing in particular. Again, it is one of those agreements that is unsettled at the moment. We will be having our decision about whether we are in the European Union prior to that deal being done. Do you think that, mixed with Chinese MES, poses risks to the UK standing alone or does it pose risks to the UK within the European Union, where it is conterminously negotiating energy deals?

Dr Budd: The Committee for Enterprise, Trade and Investment at the Assembly had an inquiry into electricity tariffs, and they are the highest in Europe in Northern Ireland. The issue is whether you can have an all-island solution, particularly with regard to renewables. That would be to the benefit of the Republic as well. Again, the uncertainty is whether that would continue after a Brexit trade agreement or not. We do not know. Again, it lowers transaction costs. You are spreading costs over a larger market.

Professor Gibson: I have nothing particular to add except that, as Leslie said, energy is a huge issue for Northern Ireland. It is worth pointing out the high energy prices. Our membership of the EU has not allowed that solution to the all-island energy problem. Whatever the obstacles are to that being solved, being in or out of the EU has not been the problem, because we have not solved it until this point.

Dr Gudgin: If it was up to me, I would push on with fracking much more quickly than we have in the UK, and push towards energy self-sufficiency and less dependency on countries like Russia. Again, there is so much uncertainty it upsets the balance of policy.

Tom Blenkinsop: Russia of course has MES status.

Q22 Dr McDonnell: Thank you very much, all of you, for the evidence so far. I find it fascinating and helpful. One of the things I would like to focus on very quickly is that, repeatedly, all are coming up with comments like “presume it is possible to make free trade agreements”. What happens to trade agreements is critical. What kind of arrangements you could come to on beneficial trade agreements are arrangements where, ultimately, there is a lot of presumption that everything would be rosy in the garden tomorrow morning. I come at this from a better-off-in perspective. As I sit here listening, I am convinced more than ever now that Scotland should go independent in the light of what has been said. There are lot of advantages in that.

What evidence is there that we could just walk out and get every arrangement that we wanted? How long would it take for us to disentangle the years of legislation, of work and all the rest that has been built up, and how long after that would it take for us to create a different set of legislation to accommodate all these arrangements? I personally feel that it would take us eight to 10 years to disconnect or disentangle, and it would take us another five or six years to create the structures that are necessary.

Dr Gudgin: Very quickly on this, as you know, the EU has just concluded a free trade agreement with Canada. It is very hard to see why they would not have a free trade agreement with the UK if they have a free trade agreement with Canada. Their previous free trade agreement was with South Korea. The EU believes in free trade; I cannot see why it would not believe in free trade with the UK.

It has taken something like 10 years in the Canadian case, but the UK already has free trade with the EU and already meets all the standards. What is there to talk about? We could just have a free trade agreement that says, “We carry on as we are.” The problem is if things change in the future. Perhaps the biggest trade uncertainty is over the City of London and financial trade. It is a long way from Northern Ireland, but it would have repercussions on Northern Ireland. In the City of London, the banks have done very well to keep all the euro trade, even though we are outside the euro. If we were outside the EU as well, it may be harder work. The Chancellor’s main concern in the recent negotiations was to try to make sure the UK is not discriminated against by a euro bloc, even within the EU.

I am not sure; these are complex issues and you may have issues in mind that I am not aware of, but I find it hard to imagine why it would take an enormous length of time in the case of the UK.

Dr Budd: It is just the uncertainty. In politics, negotiations are often complex for different reasons. You might or might not have to renegotiate 600 product regulations. There is also the recent WTO ruling on technical barriers to trade. Again, negotiating for a regional bloc with another regional bloc lowers those transaction costs. Clearly 10 years is a large transaction cost, so my concern is the uncertainty. If I was shown the evidence and it said, “This, this, this and this would happen,” I could come to decision.

Professor Gibson: What price uncertainty? That is the critical decision here. If you are like me and you are fairly agnostic in the medium term that the UK would cope with whatever the trading conditions are, that does not take away from the huge uncertainty that



it would bring for business. There would be no clarity on how long those negotiations would take. Some would be done very quickly, and some not so.

We have to remember that the UK is a huge trading partner for the EU, so it is absolutely in their interests. Those firms are not going to want to stop selling to the UK—far from it. There are certain parts of it that you could imagine being expedited rather quickly. With that said, those things can be painfully slow, so the critical question here is the price of uncertainty, how much that matters and how much we are thinking about the long term, where the effects may be rather different from the undoubted costs there would be in the very short term.

Q23 Dr McDonnell: We have touched on this already. Northern Ireland receives significant funding from Europe, particularly from the Common Agricultural Policy and some structural funds. What would be the implications if that was not replaced and we left the European Union?

Professor Gibson: They would differ widely by sector. In some cases, protections and tariffs do not help. They stifle innovation and prevent firms from trying new things and changing what they do. If we take the two separately, on CAP, as Graham has alluded to, it would be devastating for the Northern Ireland farming industry were it not to be replaced in some form. Now, there are those who would argue that there are changes needed to farm structures, sizes and all sorts of things required in Northern Ireland, but the support is so significant from CAP that that transition, were it not to be replaced, would be hugely damaging to Northern Ireland.

On structural funds, it is slightly different. On the structural funds, think of some of the peace moneys. Much of that money is invested in the hope that it will not need to be invested forever, so there is a sense in which you would be wanting to be less reliant on that in the long run, in any case. One would expect some of the good work of that money has already been done and banked, so to speak. Again, that would remain an issue for the Government, as to whether those types of funding choices would remain supported. The issue is much more significant in the agri-sector.

Dr Budd: The agri-sector in the whole of Ireland is one of the most advanced in Europe, if not the world. Moreover, the question is particularly about FDI and cross-border co-operation. At the moment, the funding arrangement for FDI development is that Invest Northern Ireland gets £1; IDA contributes £2. Every time that goes down, they are funding. They argue they have leverage of 10 to one so, for every £1 they spend, £10 comes back in economic activity. You have to look cross-border: the whole of Northern Ireland and the whole of the Republic. Those issues are quite important.

It is the transition arrangements and the kinds of levers you get. In south Wales, for example, the demonstration effect over 50 years of FDI and that support have been important. As the EU has expanded eastwards, there has been less funding, but the funding in the first place helped develop and sustain important global industries in south Wales.

Dr Gudgin: Just very briefly, I agree with what Neil and Leslie have just said. The replacement of CAP in some form is essential. The structural funds are much less



important. Even the inward investment grants are probably going to become less important as corporation tax is devolved to Northern Ireland. Alasdair will not like my saying this but, having studied and evaluated the rest of the structural funds and peace funds over many years, I do not regard them as that important. The important parts of them could easily be funded within the block, more democratically, with decisions made in Northern Ireland by people who know what the situation is on the ground much better than anybody in Brussels is likely to.

Q24 Dr McDonnell: We could talk all day about that. I wanted to pick up on a point made earlier, Graham. Are we really saying that the Taoiseach's comments were scurrilous? Do you not accept that the Irish have a dog in this race too? The border creates an interface that has an impact. We had a wasteland on both sides of the border for a couple of generations. Surely Ireland, whether in their own right or as a member of the continuing EU, is entitled to at least express the impact it would have on them.

Dr Gudgin: Of course that is true, Alasdair, but it sounded to me like a panicky point from Enda Kenny. Clearly the Republic does not want the UK to leave. This looked like throwing anything into the argument. I have not followed it up; I do not read the *Irish Times* every day, so there may be more comments but, on the accounts that I read, there was not chapter and verse about this. It was just something thrown into the argument. Of course, if we went back to the Troubles of the 1970s and 1980s, it would be devastating, but why on earth should we?

The big thing about Europe is the currency. We are already outside the euro. We have a different currency from the Republic. Anything else is going to be a much smaller matter, although Neil's point is a good one: just the practicalities may weigh on voters in Northern Ireland. "Are we going to have to have queues at the border again and so on?" In macroeconomic terms, this is fairly trivial but, to ordinary people's lives, it is what often matters in voting.

Q25 Jack Lopresti: To what degree is Northern Ireland's ability to trade and prosper on a global basis as part of the United Kingdom inhibited by its membership of the European Union? How could it maximise the opportunities if it were unshackled from that arrangement and allowed to trade globally and freely?

Dr Gudgin: I have given one example already. The trade agreements the EU has with countries like India, China and Bangladesh have to take into account the concerns of every member state, and the Italian clothing industry has been quite important in the high tariffs on clothing. The extremely high tariff on wine coming into the EU is there for obvious reasons. Neither of those are of great concern to the UK. We would have more flexibility in offering better terms to countries like India, China and Bangladesh, and we would hope for reciprocal terms back from them. You would be rather fast on your feet and more flexible as an individual country. On the other hand, in the huge market the EU has quite a lot of clout. If you can get into the EU market, you are into a big market. There is a balance here. I am sorry to keep repeating it, but the outcome of such a balance is fairly uncertain.

Dr Budd: Again, it is the all-island issue in particular trade. The balance of trade between north and south is about even, and also Northern Ireland is a devolved nation in the United Kingdom. Its linkages are through the rest of the UK, but the fixation on trade is the composition of what firms do, their technologies, things like productivity—and a lot of European firms have had a big impact on British firms—and working here. Some firms have been here a long time, particularly Japanese and now increasingly Chinese firms. There are those kinds of linkages.

There is a kind of paradox. Bombardier makes trains and did not get a contract for Thameslink, I think. They claim it is a British company. It is a Canadian company based in the UK. Those British arguments are slightly irrelevant. It is that kind of integration: the integration in things like productivity, how firms behave and their cross-border activities that are important across the whole of Europe, not just trade itself. As I said before, 50% of EU trade is intra-firm. Is it trade or is it just an internal transfer? The important point is the value-added that creates, output and employment. Employment is particularly an issue in Northern Ireland.

Jack Lopresti: You are making the case that it is necessarily beneficial for UK companies to adopt European working practices. I am not entirely sure that that is the case, frankly.

Dr Budd: That may or may not be the case depending on the firm. It depends which sector you are in.

Professor Gibson: A couple of things are important here. The critical point for Northern Ireland is that it does not have enough global firms. It has some fantastic examples we have heard of, but it does not have enough, which is one of the reasons why I have been quite supportive of the corporate tax, fundamentally for more firms. I do not see any reason why those integrations and relationships that Leslie talks about cannot continue, but there are some timing issues that could be important here, because the short term does matter.

For corporate tax powers coming and the lower rate in Northern Ireland, let us say there was an exit vote; that is bound to weigh on investors' decisions at least in the short run, who would say, "At least I want to know what the trade agreements look like. At least I would like to see." Whilst that might all be okay in the long run, I would not underplay the impact it would have on Northern Ireland if, having made its biggest policy choice, not much was happening in the first two years. Now, it may be possible to say that the trade agreements are in place, but one can imagine a firm saying, "Let me just see how this pans out."

The sale of corporation tax by Invest NI and others around the world, as an investment location, would add complexity under a new arrangement, if they are not fully able to articulate exactly how it would look. That could have some quite important effects in Northern Ireland. My long-run view may be rather more agnostic, as I have said, but in the short run the particular timing of that would have definite implications. It would at least be a factor in those firms' decisions to say, "There is at least some uncertainty here." If there were to be an exit vote, the ability to make the position clear in terms of those key trading partners would be paramount to happen almost immediately, because otherwise it would have a detrimental effect. If that policy were to be deemed a failure, it would have

a huge implication for Northern Ireland's economic maturity and its confidence, in terms of thinking of powers and policies that might help the economy.

I have a very quick last point. Let us not forget that Northern Ireland is a very small part of the UK and, in going into those trade negotiations, one of the risks would be that its interests, which happen to be quite well served by some of the trade agreements—so we are thinking agriculture here—may not be the UK's. There may be other priorities for the UK: to get the trade agreements that are most beneficial to, say, the financial services industry first. Northern Ireland's ability to be a player in those trade negotiations, as a very small part of the UK, may have some sectoral ramifications on Northern Ireland that are worth thinking about.

Q26 Danny Kinahan: We have talked of a 10-year transition period. What is the danger of the uncertainties leading to our slipping back into a crash or a dip that is profoundly damaging to Northern Ireland? Any of you can answer.

Professor Gibson: That is quite significant, just because of timing issues. We still have the austerity journey to go through in its current guise. One may argue that you could use some of the EU's venture money to soften that, but there are some challenges. We have an economy in Northern Ireland, as in the rest of the UK, which is very dependent on the consumer. That journey will end shortly with interest rate changes and inflation returning. There are very benign conditions in 2015-16, but global trading issues mean there are some choppy waters ahead. Going into that with some uncertainties means, as Graham said, the sooner the better if you are wanting to exit. The economy is quite buoyant at the minute because of domestic strengths. There are some challenges ahead and potentially going through this change during that process would not be enough if you could pick the timing, but there would be some challenges. The economy has some difficulties.

Dr Budd: I would just agree with that. It would add to the three major or global headwinds of uncertainty at the moment.

Dr Gudgin: Transitional uncertainties are important. It is very important how negotiations would be conducted. My own view is that we should be as supportive of the EU as we possibly can be. If there was a Brexit vote and the UK does not want to be a member, that does not mean to say that we do not support the EU and its other members. We want to avoid doing any damage to their concerns. If the whole thing could be done in a good spirit, the transition would be much better. If it is done in a bad spirit, it could get a big hairy.

Danny Kinahan: That is what concerns me. If you get a bad spirit, you get a backlash from some and they could shut us out, as they did in beef.

Dr Gudgin: They have a lot to lose though, Danny. They have a lot to lose as well. It is about 15% of their trade, but an awful lot of German cars and so on. It is as important to them, in some ways, as it is to us.

Q27 Danny Kinahan: Those are the sorts of facts, Chairman, I would love to see us trying to get: what is coming in and out. I do not think we will today. On a different matter, how



will it affect our skills? I know that for the Irish economy, with the Celtic Tiger, one of the factors that was meant to lift it was the fact that a lot of skills were able to come into the country. If we leave, will that have an effect on our skills, training and what we could then create?

Professor Gibson: That could be quite important at both ends of the skills spectrum. Much of the food processing sector and other sectors, in Northern Ireland and elsewhere, rely on imported labour. One might argue that better wages in the sector would encourage local workers, but the facts on the ground are that labour is important at that skills end of the spectrum.

At the upper end, if you spend much time in Dublin, one of their key issues at the minute is getting the right visa agreement to get US high-end leaders and managers to come and relocate. Certainly there would be a small risk, but still worth mentioning, to Northern Ireland of the attraction of taking talent from Northern Ireland to suck into the London labour market—business leaders, managers, etc. That would be a risk. At both ends of the spectrum, getting talent will be absolutely critical. We can see in Dublin how much even the EU has not been a big enough pool for it to get the global talent that it has needed. Again, it will depend on the visa agreements and trade agreements that the UK makes.

Dr Budd: It also might add to the existing UK skills problem, which goes back to Disraeli's commission on skills in the 19th century. We have had a long-running problem with that. On the issue about the free movement of labour, if you look at migration, the estimates that were done in 2009 by Oxford Economics were for about 1.2 billion GVA and 40,000 jobs. Those migrants tend to be well educated and well skilled, and in the 18-to-34 age group. That is quite important.

Clearly any kind of leverage to increase skills is helpful, because of the large rates of long-term unemployment in Northern Ireland and that hangover. That goes hand in hand. It is a generational impact, but it is an impact in which, if you cannot increase skills, you push up your unit costs. Northern Ireland has a balance of trade at the moment that the rest of the UK does not have. It may well be that you would push up the cost of your exports.

Dr Gudgin: Over decades in the Republic, low corporation tax was used to give an assured flow of inward investment into the country and, with that assured flow, it was possible to train people. People wanted to be trained and training could be provided, because you knew the jobs were going to be there. If you cannot assure the flow of inward investment, it is all much less certain and less training takes place. This was really one of the key arguments underlining having low corporation tax for Northern Ireland: to try to increase that assured flow. It could be affected by leaving the EU, but again it would depend almost entirely on what trade arrangements were made.

Q28 Kate Hoey: All of you seem to agree on one thing with slightly different emphases, which is that trading arrangements between the Republic of Ireland and Northern Ireland would carry on and continue, because it would be business to business, and it could be taken on in business decisions. Can we just get on the record that you think there would be no real

difference, provided business wanted to trade? In a sense, politicians would almost have to keep out of it. I just want short answers.

Professor Gibson: Yes, assuming a free trade agreement is in place.

Dr Budd: It is the same answer: yes, if it is agreed across the border that it is a mutual benefit.

Dr Gudgin: Yes.

Q29 Kate Hoey: If Iceland, a small country outside the EU, could have a formal trading agreement with China and with India, and the EU has spent years but still does not have a trade agreement with India, is there any reason why the United Kingdom including Northern Ireland, with such a hugely bigger economy, could not get the same deal quite quickly?

Professor Gibson: There is not, in my view, particularly as a lot of the standards are already in place. It is not coming new to the trading table, so to speak, so we are already well ahead. I see no reason, and the size of the economy makes it in most of the partners' interests to expedite those kinds of arrangements.

Dr Budd: It is the size issue. Iceland flirts with membership and then non-membership.

Kate Hoey: Some 98% of their population has voted not to be a member.

Dr Budd: I know; they applied in 2009, but things have changed. Again, it is not a very good comparator, because of the complexities of the economy and the size, but again we do not know.

Kate Hoey: It is a lot smaller than the United Kingdom.

Dr Gudgin: The UK is a larger market, so there is no reason why we could not develop trade agreements. In the case of Iceland, everybody wants fish, so even Ardglass could have a trade agreement with China.

Q30 Kate Hoey: Finally on agriculture, obviously I understand and know the importance of the money that farmers in Northern Ireland get but, when you talk to a lot of Northern Ireland farmers, they themselves say that of course they do not want to lose that money but they would know how much better that money could be spent. Do you not think the decision about how that money would be spent, if it is our own money coming back, might be better taken by working more closely with farmers, rather than one representative from Belgium who represents all of the 28 countries' farming policies?

Dr Budd: I agree with that. I have been very critical of the eurozone and the increasing distance of European governance from citizens. It is a political issue. I would agree on that, and it is the same with sectors.

Professor Gibson: Yes, although we should manage expectations. There is plenty of money we do have control over. You could question whether we spend it well. The

mechanisms for choosing how you spend it are still important. There will be plenty of people putting their hands up saying they would be the best place to invest that money, but yes, in principle.

Dr Gudgin: It is very hard to imagine that Northern Ireland's agriculture would not be supported within the UK outside Europe, but it may not be supported in exactly the same way.

Q31 Kate Hoey: Just out of interest, Dr Budd, or any of you, do your institutions and the Department of Public Leadership and Social Enterprise receive any EU funding?

Dr Budd: Yes.

Kate Hoey: It does, but you do not have to sign up to anything.

Dr Budd: We have an ethics committee.

Kate Hoey: It is not like commissioners, who have to sign up to not bringing the EU into disrepute.

Dr Budd: I got EC funding and Iceland was part of it. It was to use electronic government services.

Kate Hoey: Can I just say exactly what Ian Paisley said? All of you have given very direct and very helpful information.

Q32 Oliver Colvile: If Britain and Northern Ireland were to withdraw from the European Union, would that have significant damage on delivering care? We are somewhat dependent, I would have thought, on Eastern European nurses, cleaners and people like that. Will have a significant impact upon Northern Ireland delivering a National Health Service that is working?

Dr Gudgin: If European migration was cut off altogether, there would be significant impacts, not only on care but on several industries: food processing and agriculture. If you are a leek farmer in Northern Ireland depending on Lithuanian workers and so on, it is very hard to imagine how those would be replaced. I imagine the situation for the UK outside the EU would be an ability to control the borders. If labour was needed for care homes and so on, that would be a factor in how those rules were enacted.

Professor Gibson: I would echo that sentiment. You mentioned care. One other little wrinkle that could be a challenge, were there to be an exit, stems from some of the linkages that are not fully integrated yet between Ireland, north and south, but one might imagine in the future. It is getting very difficult to afford the healthcare system and to afford the education system. In terms of integrating hospital care, that is already very difficult at the minute with different currencies. How do you pay for it? How do you exchange money? Nevertheless, one can imagine a system in which public service is rather more integrated in that.

It would at least have to be an issue to be considered because, on top of the labour point, there are also the potential benefits of reducing the cost of public service by rather better

integration of what are essentially public services in either jurisdiction. Those opportunities have not yet fully been realised; in fact, the recessions have started to accelerate that kind of thinking. Whilst it is not impossible to think of a way that could still take place, it could be a slight derailment to some of those fundamental hard choices about the delivery of public services that exist for the UK and Ireland.

Dr Budd: My concern is that the care industry is moving rapidly towards crisis at the moment, with a number of firms pulling out. London boroughs are sending older people farther out from London, away from what they are used to, and that could increase. Anything that would damage an already vulnerable situation would be worrying.

Q33 Kate Hoey: Would we not take people in from anywhere in the world, instead of automatically having to take people from 27 other countries?

Dr Budd: The Government's present visa programmes would have to change. At the moment, you have a pool of labour that you can draw from. Much of it has been here for a long time, and then you would have to change the Government's present immigration policy. It is just greater uncertainty. That is what I am saying.

Chair: We do, for example, have a policy of allowing Filipino nurses to come. We do relax certain visas.

Dr Budd: Yes, absolutely.

Chair: We are going to have to draw this session to a close. We have gone over a little bit, but thank you very much indeed, gentlemen. It was a good start to our inquiry. Thank you.

Examination of Witnesses

Witnesses: **Dr Cathal McCall**, Reader in Politics, Queen's University Belfast, **Dr Lee McGowan**, Senior Lecturer in Politics, Queen's University Belfast, and **Professor Dagmar Schiek**, Jean Monnet Professor of EU Law, Queen's University Belfast, gave evidence.

Q34 Chair: Good morning. Sorry for the delay. Can I ask you very briefly to introduce yourselves and where you are coming from on this issue, please?

Dr McCall: I am Cathal McCall. I am from the School of Politics, International Studies and Philosophy at Queen's University Belfast.

Dr McGowan: I am Lee McGowan, also working at the School of Politics, International Studies and Philosophy at Queen's Belfast.

Professor Schiek: My name is Professor Dagmar Schiek. I am professor of European law and English law, unfortunately. I am also the present Jean Monnet ad personam Chair and the Director of the Centre of European and Transnational Legal Studies at Queen's University Belfast School of Law. I should also add that Lee McGowan and I are part of the Jean Monnet Centre of Excellence at the same university.

Chair: Thank you very much for joining us. I do not think I will ask any initial questions. We will go to Members to ask questions.



Q35 Oliver Colvile: Thank you very much for coming to see us. Obviously this is going to be a momentous decision, as to whether or not Britain continues within the European Union, and that includes Northern Ireland. Northern Ireland is the one place in the UK that has a border with another EU country. What impact do you think it would have on the ability to police the borders? Do you think it would be very difficult to police the borders or do you think it would be quite simple to do it?

Dr McCall: No one really knows how long the border is, because it runs through loughs, farms, fields, mountains and people's homes. It is quite hard to get a handle on how long it is. Some estimates are 335 kilometres, but who knows? Even during the height of the Troubles, as they used to be called, the Northern Ireland conflict in the 1980s, you had a serious hard border in parts of the border area, but in other parts it was pretty open, especially around the middle of the Fermanagh/Cavan area. In the event of a Brexit, I would imagine it would be quite difficult to secure the whole border. You would have customs posts and checkpoints on key arterial routes, but you would also have to have border patrols along the length of this.

Oliver Colvile: There could potentially be a significant level of immigration into the country.

Jack Lopresti: There would not be if you had border controls.

Oliver Colvile: You cannot do that. We just heard that it is going to be very difficult to maintain border controls.

Chair: Could we put the question to the witnesses?

Dr McCall: We could go on to ask other questions about where the actual UK border would run. We could, for example, border Britain, which would obviously cause serious distress to a community in Northern Ireland, the Ulster Unionist community, but it has been done before. It was done after the fall of France in 1940, when the Common Travel Area was suspended until 1952 and then it was done to some extent after the introduction of the Prevention of Terrorism Act in 1974, when residents of Northern Ireland could be deported from Britain to Northern Ireland and also prevented from entry into Britain. The other obvious bordering possibility or option is to border the British Isles through a security regime and intelligence co-operation between the various security services, but obviously that would have serious implications for the Republic of Ireland's continued membership of the European Union, because of the freedom-of-movement principle.

Dr McGowan: I agree with much of that, in many ways. We still need to establish, if the UK were to leave, whether it is going to be a hard border or a soft border. What are the issues? Again, the issue that follows from the previous session is this uncertainty about many of these issues. What does Brexit actually mean? What would that mean to the border? In theory, it should be a hard border in terms of leaving the European Union, but will it be in practice? I imagine they will agree something.

Professor Schiek: I am mostly answering questions from a legal perspective, because my colleagues have done many studies on the factual reality of the borders. From a legal

perspective, you have to look at comparative regions. The European Union has land borders in other fields, for example with Switzerland, Liechtenstein, Andorra and the Vatican City. In all these regions, there are agreements about how borders are policed or not policed. If the question is whether we can prevent immigration, that is another field.

Q36 Chair: Given that there is the Common Travel Area and given that neither the UK nor Ireland is in Schengen, how possible would it be to negotiate a different arrangement from the one that exists at the moment? Obviously the EU has a hard border going around it but, given the differences that UK and Ireland have, how possible would it be to negotiate a different arrangement?

Professor Schiek: If you are asking about the political probabilities, I cannot answer that. I can say something about whether there is a legal possibility of doing that. If you think of the legal future after a UK exit—Brexit is a different matter obviously, so let us talk about a potential UK exit—there are two things that we need to consider. On the one hand, in the Treaty of the European Union, since the Treaty of Lisbon in 2009, there is a clause that demands that member states must be treated equally. Although this is an obligation on the European Union itself, it also has a corresponding obligation on the members of the European Union. This could colour any relation between the Republic of Ireland and the UK as a specific partner. There would have to be not only a special agreement but also special legal arrangements that these border agreements do not violate the principle of equal treatment of member states.

On the other hand, if you go to international law, leave that European Union law out for a while and do not consider the specific position of the Republic of Ireland, you could say that, under international law, countries can agree a lot. I gave the example of Switzerland. There are passport controls, but there is no thoroughly policed border. There can also be agreements for the border between Northern Ireland and Ireland.

Q37 Chair: There are European fudges, for want of a better word. You say equal treatment, but Ireland and the UK are not in Schengen, so there is no equality there, is there?

Professor Schiek: The Schengen Agreement is pretty old; it is from the 1980s. As I said, there was a change in the European Union treaties in 2009, which introduced that new clause. It does not affect ongoing treaties. Every new treaty would have to be considered under that new clause, which has not become practice yet. It is another insecurity.

Q38 Ian Paisley: Could you describe for us the current Northern Ireland border and how it is managed?

Dr McCall: The current Northern Ireland border is, I would argue, a soft, open border, which is relatively easy to cross. In fact, it is still very easy to cross and has improved, in terms of crossings for local borderlanders, since the EU INTERREG programme funded the re-opening of secondary roads. That project has finished now, but went on for approximately 10 years. There is free flow of people and goods across that border.



Q39 Ian Paisley: Could you describe how it is managed?

Dr McCall: Managed in what way?

Ian Paisley: Let me try to help you. The current Northern Ireland border is not a soft border. The current Northern Ireland border is an electronic border. Every single vehicular movement on the border and every single person movement on the border is electronically recorded. For example, to the day, you can have an electronic readout of the people who cross the border, the number plates that cross the border and the multiple crossings that those number plates make. That is done for security reasons. It is a multi-billion-pound operation. It is probably one of the most advanced border movement management systems in Europe.

It is quite similar to Switzerland, in many ways. For example, yesterday there were 230,000 border movements in Switzerland, 0.25 million movements, in one day. That is managed in quite a similar way, so this is a very highly priced and expensive border operation. There is nothing to suggest that would change in any way on Brexit.

Dr McCall: That specific security management operation you are talking about extends across the Irish Sea and across the North Channel. There is extensive sharing of information between the Irish security authorities and the British security authorities.

Q40 Ian Paisley: How would that change when we are not in Schengen? We currently are not in Schengen. The Republic of Ireland is in Schengen. We have probably the best security protocols between An Garda Síochána, the Police Service of Northern Ireland and the other 41 police services in the United Kingdom. Of course, with the creation of the National Crime Agency, those relationships have been improved considerably.

Dr McCall: That is all fair enough.

Ian Paisley: I am just saying that your first answer falls into what we are trying to avoid in this Committee, and that is scaremongering.

Dr McCall: No, I am not scaremongering.

Ian Paisley: Your first answer was that we just would not know; the border would be open. It would be the free flow of people. Yes, there is the management of people on the surface who can freely pass for a whole host of reasons, but the border is secured.

Chair: Could you ask a question? Is there a specific further question?

Q41 Ian Paisley: It is on that issue. If the current border is secure, and people and vehicles can be managed electronically, do you not agree that there would be absolutely no change to our border if Britain were to exit the EU?

Dr McCall: The question would then be that there would be no need to establish customs posts, for example.

Ian Paisley: Absolutely not. I would not want to see customs posts when we have an electronic border that is much more efficient.

Q42 Chair: Would there be a requirement from the EU for such posts?

Dr McCall: You would imagine so.

Ian Paisley: The professor said that Switzerland does not do that. Why would Northern Ireland be treated differently?

Dr McCall: The UK would have to enter the European Economic Area.

Ian Paisley: It would be a security protocol.

Dr McCall: No, I would imagine it would have to enter the European Economic Area.

Professor Schiek: I did not say that nothing would change. I said that there were possibilities under international law, if you also look into the requirements of European Union law, to create specific arrangements for the border between Northern Ireland and Ireland, in the event that the UK leaves the EU. Of course, those arrangements need to be negotiated and agreed. The EU treaty says there is a two-year negotiation phase accompanying any member state leaving the EU. These two years are considered for normal circumstances; perhaps Northern Ireland's situation is not normal. It may take longer to get to a result there, so I did not say it was automatic. I just said that there are options.

Q43 Kate Hoey: Presumably you agree that there are very good relations at the moment between Northern Ireland and the Republic of Ireland, and that any change is likely to come about through goodwill, if there was goodwill. None of these difficulties that you are suggesting are insurmountable with goodwill, are they?

Dr McCall: With goodwill, yes.

Q44 Kate Hoey: Can we just go on to the peace money, because that is the other fear thing? This money that has been coming, we were reminded earlier, is our money back. The EU projects that have been promoting cross-border and cross-community relations have been there for some time now. Some people would say they have diminishing returns and they are not producing as much now as they needed to originally. Could these not be replaced by bilateral programmes between the Republic of Ireland and Northern Ireland with money that we are going to be getting back?

Dr McCall: That is the 56-million-dollar question.

Kate Hoey: Is there any reason why they would not be replaced, other than maybe somebody deciding they are not particularly useful anymore?

Dr McCall: That would be a decision for the British Government in concert with the Irish Government. There had been talk after the enlargement of the European Union in 2004 that, because EU structural funding was shifting eastwards, and necessarily so because of lower GDP in accession states in Central and Eastern Europe, the inter-governmental relationship would have to step in to fund these so-called soft capital projects. Of course,

after the economic collapse in the Republic of Ireland in 2008, that sort of talk was dumbed down.

However, the EU continued with its peace programmes, albeit to a lesser extent in terms of monetary value, and they will continue until 2020. Whether the two Governments would be in a position thereafter to support the peace process at a local government level, and in terms of cross-border co-operation, is anyone's guess.

Dr McGowan: It is something for the Government to think about, because PEACE IV is probably the last tranche of money that is going to come under the peace monies. Some of us were surprised there was a PEACE IV. Yes, this is something that those Governments may indeed want to think about.

Professor Schiek: I am trying to answer the legal question, which is always that it needs specific agreement. My colleague pointed to the fact that it also needs specific budgetary engagement, which is not legal, but would the UK really replace EU money? That is a question that is on political table anyway. Legally, there is a question of how much allowance there could be for specific relations between Northern Ireland and the Republic of Ireland after the UK leaves the European Union. That would always have to be agreed specifically, so it would not be automatic that those relationships could just go on as they went on before. There would have to be a new basis, either a backing-up, a change between the present north/south agreements, which are international agreements, or any other thing. It creates a lot of uncertainty. I would never say that there is no solution—I am not that person—but do not underestimate the difficulties.

Q45 Kate Hoey: Given the huge amount of support that the British Government has given to the whole question of Northern Ireland, support for corporation tax and all kinds of things, do any of you really think that the United Kingdom Government is going to abandon Northern Ireland? There may be some people who want them to, but do you think it is going to happen?

Dr McCall: In the event of a UK exit, there is the possibility of a change in relationship. If you cast your mind back, it was only after a session in 1973 that an inter-governmental relationship started to develop between the UK and the Republic of Ireland. All right, they are very different states and very different sizes, but there was a certain sense of equality and respect. I am not convinced that that would continue in a new environment, with the UK outside the European Union. There is the possibility that it would change.

Q46 Kate Hoey: The possibility, yes. Does anybody else want to add to that? You are all from Queen's; you are all part of the university. Do your individual departments or you individually get any money the European Union support?

Professor Schiek: I believe in openness in this field, and that is why my website has my full curriculum vitae, where you can see how much money I receive.

Kate Hoey: You are funded by the EU. I do not mean personally.

Professor Schiek: No, I do not receive the money personally. I receive it for my professional work. The question seems to suggest that academics who receive European funding are more likely to support the European Union. If you compare academics across the European Union, those who get the most money are the ones in the UK. They are least supportive of the European Union, so there is no clear empirical relationship.

Kate Hoey: But it is our money that has come back to fund it. What about you two? Does your department get funding?

Dr McGowan: Money does come in, but we do not automatically receive it; we have to apply for it. As you can imagine, the whole process is competitive. Universities these days are applying all the time for funding. Funding is a real issue. You are right. There was a letter in the *Times* last week saying basically that. We pay the money in; rather than paying the money in, we could pay it straight to the UK universities.

The one problem and reservation I have with that is that academia is changing over time. The days of lone scholars are almost long gone. We do not want to duplicate research across Europe or elsewhere but, in terms of the European Union, we are strongly encouraged or expected to be in partnerships with other individuals. They could be in the same state but, more often than not, they do not want the same state. In this case it is European Union money, so they want other European Union states. It is something that we are all expected to apply for. If you talk about the money that we put in and the money that comes back, this is another stream of money that comes back as well, in terms of grants. As Dagmar said, the UK is probably the most successful state at getting this money back from Horizon 2020 and the European Research Council.

Dr McCall: I have also received research income from the European Union, the UK and the Republic of Ireland. In terms of EU research, I have recently published a book on the EU and peace building, and I was very critical of the European Union in that book. Just because I was funded by the European Union, it does not mean that I cannot be critical of it.

Kate Hoey: Of course you are not in receipt of a European Union pension. That would be slightly different; you would have had to not bring the European Union into disrepute. Thank you.

Q47 Nigel Mills: Perhaps we could just go back up a level and ask the panel what they think the big legal and political issues would be of a British exit from the EU. Professor Schiek, do you want to start?

Professor Schiek: From a legal side, if the UK left the EU—that is what we are talking about—there would be problems or issues that arise from two sets of relations. One is between Northern Ireland and the Republic of Ireland. It is the only space in the UK where we have a land border with another EU country.

Nigel Mills: Except Gibraltar.

Professor Schiek: Yes, there is a land border with another EU country. That means we have a hastened exchange of people, goods, freedoms and services, and all this creates new challenges if the underlying EU guarantees have gone. I have already indicated that I

am not a person who would say that those challenges cannot be overcome, but it does create challenges.

The second point is challenges relating to the government of the whole island of Ireland, which is now based on a series of international agreements between the Republic of Ireland and the UK, starting with the Belfast agreement and ending with the Stormont House agreement. Those agreements relate, partly explicitly, to the membership of the UK and the Republic of Ireland in the European Union. For example, the Belfast agreement created the North South Ministerial Council and says that it will always consider whether their politics are in line with European Union legal requirements. That is reflected in the Northern Ireland Act of 1998, which says that everything the Assembly does and the administration of Northern Ireland has to comply with European Union law.

Should the UK leave the EU, either these commitments would be changed, which would mean a new international agreement between the UK and the Republic of Ireland, or those commitments would remain. That would mean that, even after leaving the EU, there would be pockets bound to European Union requirements. All these situations place Northern Ireland in a unique situation.

In the former panel, which I listened to with great interest, some of the first sections, the day-to-day exchange, which my colleagues have also mentioned, were already problematised. I will just mention a few issues. For example, what happens to the equal treatment for border workers, border business and border leisure? Cross-border leisure also happens. There are some problems here. For example, what about people who work in the Republic and live in Northern Ireland, and the other way around? Can they still count on being treated equally in their public services? Can they still rely on the same agreements relating to who pays the care for their relatives if they are frontier workers? How is care organised? This is all underpinned by EU economic freedoms and EU legislation, which is very expansive and very complex. That legislation would then have to be rephrased and reinvented.

Nigel Mills: There are other international agreements on cross-border working. It is not unusual outside the EU, is it?

Professor Schiek: I was coming to that point. There are other regions; for example, the former Czechoslovakia was divided upon agreeing membership of the European Union. They have specific agreements. Benelux countries, Belgium, Netherlands and Luxembourg, have specific agreements. The Scandinavian travel area has specific agreements. Currently, there are no specific agreements for the British islands, but there would be models to draw upon.

We should also not forget the Council of Europe treaty on social security, of which those two countries are not yet members, but they could be and that could solve some problems. I am just saying that it is not that easy. The two years provided for in the EU treaty to negotiate exit conditions will be well used, and I am not sure whether two years are enough. The everyday problems can be solved. If you are interested in specific advice on a specific problem, I can do that. I did not know which would be of the most interest. I cannot do everything, but that is one.



Q48 Nigel Mills: Can I ask you one legal question, Professor Schiek? You are pretty well placed to answer this. People commonly say that one of the issues the UK has with the EU is that we have common law and most of Europe has a civil law system. The EU processes seem to fit well with a civil law system and butt against our common law system. Is that a real issue or is that something that we dream up in the UK?

Professor Schiek: That is a very interesting question. One of my teachers was Norbert Reich, who sadly passed away last year. He was German, as I am by origin. I am now a dual citizen. He writes in his text book on European Union law that the European Union operates more like a common law system, because it is governed by the European Court of Justice and its case law. Being determined by case law is so much more typical for common law countries; it is really difficult to digest for civil law countries. I am saying that the European Union is different from each of its member states and it has to be, otherwise it would be a new form of governing people by foreign force, which it is not. It is perceived as alien in each of its member states.

Q49 Nigel Mills: Dr McGowan and Dr McCall, did you have an answer on what the main political issues of Brexit would be?

Dr McGowan: I should also stress Cathal's point that my role, in teaching and researching the EU, is to do it with the critical eye, in many ways. We are not there to promote the European Union. We are there to try to understand the way that it works and operates, how well it does or does not, and to look at different policy areas and experiences for different member states. In terms of this debate, given the complexity of a lot of these issues coming up, how on earth do we get to a referendum and bring those issues to the wider public?

Maybe the starting point is to ask whether there are advantages to EU membership. If there are, can we identify categories? Is it in the terms of economic prosperity, as we heard about in the previous session? Is it about the security issues that have been touched upon or is it more about political connections for the UK and its role in the wider world?

On your question about the issues, it has taken a long time for this debate to really get going in Northern Ireland, but we are getting the sense that it is now being picked up. One of the issues resonating is of course the border issue and what it means—long to be debated. The other, as mentioned in the previous session as well, is agriculture. Other issues are floating around, including environmental regulation. Could Northern Ireland have different environmental laws, not simply the European ones? Fishing is also appearing. There is a whole range of areas beginning to appear. A lot of them affect everyone, and others specific parts of society. It is how they then interact, lead a debate or engage in the debate that we are trying to steer towards.

Dr McCall: Politically, we would have to be cognisant of the development of intergovernmental infrastructure. Since the Belfast/Good Friday agreement, you have a fairly complex web of institutions, not only north/south but also east/west between Britain and Ireland. In terms of the island, you have the North South Ministerial Council and its implementation bodies. What would happen to these specific implementation bodies that are there to promote the island as a whole abroad or to develop trade across the border on the island?

Q50 Nigel Mills: Are these not all bilateral agreements that would not have to be affected?

Dr McCall: In theory, yes they are, but if you have a new type of arrangement whereby the UK is outside the EU, that complicates matters, not least in terms of the intergovernmental relationship. As I alluded to before, some would argue that relationship has developed very well under the umbrella of the European Union, since 1973. What would happen after the UK leaves and establishes or reasserts its independence? Reasserting independence does not necessarily mean that you are now interested or still interested in interdependence, not only with the rest of the EU but also with this much smaller state on the other island.

Q51 Dr McDonnell: Very quickly, as you have already touched on this and I do not want to drag it out, I would like to double back to the implications for people living, working and moving to and fro across the border, and also their social protection and all the rest. Can you enlighten us a little further? Professor Schiek touched briefly on that, but I see it as a major implication. The northern part of the border counties and equally the southern part, before the European Union in 1973, tended to be a bit of a wasteland where movement was not as easy. Since then, there has been the ill-fated Quinn operation in Derrylin and places like that. In many ways, that poverty and marginalisation has been reversed. How do you see that playing out?

Dr McCall: Again in terms of the individual cross-border worker, a Brexit would complicate their position, because there would be some confusion about where, for example, they could claim tax credits or childcare benefits. All of that would again have to be ironed out in some sort of bilateral agreement between the two states. That is another issue that is added to a long line of issues that would have to be addressed. Certainly in terms of mobility, in terms of contact, in terms of communication and in terms of co-operation, the whole idea of reintroducing some sort of control on the Irish border would ultimately be a step back for borderland communities on either side.

Professor Schiek: You said “bilateral agreements”. That is not quite correct. They would have to be agreements with the whole of the European Union, so this would have to be part of the exit agreement. As the Republic of Ireland probably will remain a member of the European Union—there is little prospect of them leaving as well—everything that is agreed under the instruments mentioned needs the agreement of the European Union. Established instruments are usually longer and older than the European Union, so it was easier to say, “These are the Benelux agreements there; we accept them.” There is even a clause in the treaty so that pre-existing agreements would be accepted.

If north/south agreements need to change because they refer to the existing membership, it is another matter. They still need to be negotiated not just with the Republic but with the rest of the European Union as well. That is complicated. Also think of those who study over the border. That is another issue. What are they paying in study fees? All these little things need consideration.

Q52 Lady Hermon: It is very good of you to come along to give us evidence today. I wonder how politically divisive you think this referendum will be in Northern Ireland. Do you think that, in fact, one side of the community will line up to say no?

Dr McCall: As ever in Northern Ireland, that is already happening, I am afraid. Sinn Fein is anti-Brexit. SDLP is anti-Brexit. DUP—perhaps you could enlighten us. As ever, we have to face that it is a divided society, in terms of these big issues. Whether they are related to the European Union or not, invariably they come down to our own division in terms of the two communities there and are reflected in the opinions of the political parties that represent those two communities.

Q53 Lady Hermon: How engaged have the main political parties in Northern Ireland been in this EU referendum debate?

Dr McCall: They engaged slowly. I have to blow our own trumpet slightly, because we at Queen's have been very keen to debate this issue in public forums, and we were delighted recently to have the Irish Minister for Foreign Affairs and Trade, Charlie Flanagan, and the First Minister for Northern Ireland, Arlene Foster, there to debate these issues. It was a very constructive, interesting and well-attended debate. We are slightly disappointed though that the Assembly has thus far failed to really engage with this issue. We are delighted that this particular Committee is leading the way.

Dr McGowan: Let me take the two questions, but beginning with the one on the two main communities. Northern Ireland, as part of the UK, joined the European Economic Community, as it then was, in 1973. When the referendum came two years later, Northern Ireland was the least Europhile and most Eurosceptic part of the UK, with just 52% voting to stay in the European Union. What was striking then was the preponderance of those from the nationalist community wanting to be members of the European Union, more than the unionists. Over 20 or 30 years, that narrowed to be almost identical by the turn of the millennium.

In terms of opinion polls, while there have been hundreds on the UK and attitudes to membership of the European Union, there have been much fewer in terms of Northern Ireland. They are now beginning to appear. We have had three in the last six months. The first thing they are beginning to show is that, if that question were asked—“Should the UK remain a member or leave the European Union?”—55% to 58% say they would vote to stay in the European Union. If you begin to claw back on that and look in further depth at the two communities, 92% to 93% of the nationalist community would vote to stay in. The unionist community is clearly much more split down the line, so there is an issue there. All of a sudden, we seem to be going back: is the issue of leaving the EU going to bring back tensions again?

In terms of the political parties, it is probably fair to say moving the EU debate forward has been a slow process. As of yet, the Executive has taken no firm view on Brexit and we are still waiting for that. For the rest of the parties, Cathal mentioned Sinn Fein there clearly making the case again. You heard views about the border and the economic effects, but there is also this mindset of how people may see what sort of border emerges. Sinn Fein's position is that this would be repartition in some description. Does that feed into the mindsets of their own voters? They have taken a lead.



We are seeing other parties coming forward, but we are really waiting for the two main unionist ones to come off the fence and say one way or the other. I suspect the issue there may be internal tensions. The two communities themselves may be split in terms of what they see. The farming lobby is beginning to come forward on how important the CAP is or if the money would still come if the UK were to leave. These are just the uncertainties and we do not know, but they may become more vocal. Again, the Federation of Small Business is almost split down the middle about staying in or leaving the European Union.

You asked me about the political parties, but what we really do not have is a debate with the wider public. It is taking place among academics and businesses, but in the wider public there is no real debate yet about the EU and what it means. It is going to be really difficult, on the earlier question about whether June is too soon.

[Ian Paisley assumed the Chair]

Q54 Lady Hermon: Given we have a Prime Minister who regularly tells us that this is a one-nation government, though his actions do not seem to match his words, would it be helpful if the Prime Minister came to Northern Ireland and campaigned to stay within the European Union? Would that be helpful in making up the minds of those undecided voters?

Dr McGowan: I do not know.

Lady Hermon: That was a very diplomatic reply.

Dr McGowan: What we think about referendums would be another issue. We always see coming through in the study of referendums that, if the leader of the country or the main parties are advocating something, you might get a little rebellion among some of the electorate. Could it do any damage? I do not think it could do much damage. We need not only the political parties but other main stakeholders in Northern Ireland to make the case for why the UK should stay in or why the UK should leave the European Union. We need that debate from both sides, so that the public can hear what is at stake.

Lady Hermon: Dr McCall, do you think we should be inviting the Prime Minister? You expect him to come, I am sure.

Dr McCall: I expect him to come indeed, but I also suspect that he has enough on his plate with regard to convincing people, even within these walls, that his negotiation has been a resounding success. There is also of course the electorate differentials between England's massive population and tiny Northern Ireland of 1.8 million. What is it here, 56 million now? Scotland is 6 million; Wales is 3.5 million. This referendum will be won or lost in England.

Lady Hermon: As part of the United Kingdom, you would expect the Prime Minister of Great Britain and Northern Ireland to come to Northern Ireland.

Dr McCall: I reiterate that the Prime Minister of the United Kingdom of Great Britain and Northern Ireland should certainly come to Northern Ireland.



Q55 Lady Hermon: Just following on from that, we understand, although it has to be confirmed when she gives evidence before us, that the Secretary of State for Northern Ireland is not very keen on the United Kingdom remaining in the EU. I am not speaking for her, but how influential do you think her views will be around the Cabinet and in terms of influencing the public in Northern Ireland?

Dr McGowan: How influential will she be in Northern Ireland? I suspect she will not be.

Lady Hermon: I am so glad we invited you to give evidence today.

Dr McGowan: I go back to the point I made earlier. Political parties and other stakeholders will have a louder voice. How influential she will be sitting around the Cabinet is another question entirely. Again, we think we know what she wants, but we are trying to get her to vocalise that one. It may depend on whether, around the Cabinet table, others then come out to make the case for leaving the European Union. She may feel more confident and independent.

Dr McCall: Of course, she has been pretty mute on the issue so far, not least because of ongoing negotiations but perhaps also because she recognises the sensitivities involved in Northern Ireland with regard to the Brexit issue. We will see how that pans out between now and referendum day, but I am not necessarily certain that she would carry a considerable degree of influence in terms of the electorate. They are more likely to listen to their political party leaders.

Q56 Lady Hermon: There is very interesting. There is of course speculation that this referendum is going to be held in June. Is that too close to the Assembly elections, which of course will take place in May? Do you think there should be a longer lead-in time? How is that going to play out in Northern Ireland?

Dr McCall: There is always the problem of potential voters being sick of being called out every other month to vote.

Lady Hermon: Voters in Northern Ireland are never sick of voting.

Dr McCall: They have declined, in terms of their turnout of late.

Lady Hermon: For something as crucial as this, surely you are expecting a large turnout at present. Have you an expectation in your head about how the voters would respond or is it just too early to tell?

Dr McCall: It is too early to tell. The European issue has always been very much removed from the minds of the electorate, not only here but certainly in Northern Ireland. It is for the media, for political parties and indeed for us as academics to try to engage the public as much as possible and emphasise how important this particular referendum is for their future.

Dr McGowan: June almost strikes me as too soon, in terms of the work that would have to be done before that referendum. Then you think, if you roll it on even to September, would much really have changed by then? The Prime Minister, if he can get agreement or



is happy with the final deal of the European Council, seems to be running for that date of 23 June.

Lady Hermon: On balance, you do not think it would make much difference if we waited until September.

Dr McGowan: I do not think it would make much difference at all.

Professor Schiek: It is a choice between June and September. It is important that, if the Prime Minister concludes this agreement with the European Union, they also inform us what this means for Northern Ireland again. If the agreement is that anybody who takes up an occupation in another member state and in the UK can be banned from benefits, it will affect quite a few people. There will also perhaps be discussions in other countries, especially neighbouring countries, about what happens to the benefits there. This is a specific piece of information that the Prime Minister might be able to think about if he wants to engage people in Northern Ireland. I think it is necessary for there to be more information around. People just do not think about this issue nearly enough.

Chair: I want to roll this on just a little bit. Our Chairman has had to go to another meeting, so I apologise for his absence.

Q57 Gavin Robinson: Thank you, all three of you, and apologies for the discourtesy of having to nip out for a moment. Can I just bring you back to your hesitancy around the usefulness of the Secretary of State, her intervention in Northern Ireland and how persuasive she could be? Could she have a fundamental role in answering some of the uncertainties around what may come next, if she were to advocate in the Cabinet for a solution to assuage the concerns on the Common Agricultural Policy or a solution to replace what could be there with peace monies and so on? Do you see that as something useful in which she could engage, as a Cabinet member representing Northern Ireland's interests?

Dr McCall: It would be wonderful if she could give some substance and answer some of the multiple unknowns we have, but I doubt she would be in a position to do so in the run-up to the referendum, especially if her party leader is on the other side of the debate.

Gavin Robinson: This is an inability to get the answers, rather than a willingness to get them.

Dr McCall: Yes.

Q58 Gavin Robinson: This is quasi-political and quasi-legal, but goes back to the border issue. You have very helpfully outlined, professor, that in the treaty of Rome there is recognition of existing agreements. Would the Common Travel Area agreement between the Republic of Ireland and Northern Ireland, which predates the EEC, remain? Is that your legal interpretation?

Professor Schiek: I would have to look up the exact wording of the treaty, but it does say that previous treaties can be maintained, but they need to be redrafted and rearranged, insofar as they conflict with European Union law. An example that has nothing to do with Northern Ireland but many members were party to prohibited women from working at

night. They have, first, been allowed to maintain those treaties, but the second part of the clause says you need to revise anything that conflicts with European Union law.

I do not think that the Common Travel Area as such cannot be maintained, but it must be ensured that some of the social policy issues that are arranged in the Common Travel Area, for example study fees, participation in public services and so on, do not look towards favouring one particular member state, in this case the UK in relation to Ireland. That is something that needs to be reassessed.

Q59 Gavin Robinson: Moving towards what a future agreement may look like, if necessary, travel is obviously a big part of life in Northern Ireland, because we are on our own, have connections with the EU and so on. Our arrangements not only with the Republic but with the rest of Europe would change for holidays, business, and leisure and so on. How easy would it be to maintain freedom of movement for UK travellers, should we face Brexit?

Professor Schiek: You said that this is a mixed question: how easy this would be politically and if it would be possible legally. Legally there are a few agreements that allow freedom of movement. That is the EFTA agreement and the specific agreement for Switzerland, and so on. All these agreements always include the obligation to pay fees to the European Union. I am not sure whether the specific rebate that the UK presently enjoys could be forwarded on. That is a political question, but it needs to be thought about as an element of this. These treaties are always very sensitive about free movement. For example, Switzerland was recently banned from any European Union funding for their universities, because they restricted free movement. That is a very sensitive issue for the European Union, even in the agreements with non-members.

Dr McGowan: The answer to your question is what the alternative is to EU membership. If you leave the UK, where should you place the UK? Is she in EFTA, the EEA or somewhere else? That is another one of these uncertainties. We just do not know.

Q60 Tom Blenkinsop: I have a brief question, which is slightly away from what we have just been talking about. It is mainly in relation to food manufacturing. Obviously Norway is a non-EU state and voted quite strongly to stay out of the European Union, back in the mid-1990s, mainly because of its agricultural and fishing industries. However, it is quite obvious that, within the fishing industry, food preparation carries quite a large tariff if produced outside the EU and then imported into the EU. How would food preparation and food manufacturing, which is the largest market in the UK and quite important to the Northern Ireland economy, be affected by Brexit?

Professor Schiek: On what level? All levels?

Tom Blenkinsop: Would it diminish it? Would it improve it? Would it enhance it? What I am asking is not just an issue about freedom of movement of labour; it is also about the free movement of capital and investment. Do you see any damage to manufacturing in that sense?

Professor Schiek: There is also the issue of free trade with the goods you produce. There are three issues. One is how you get labour. There is how direct investment will be affected and how far you can trade with your food with the European Union. Will they allow a specific customs regime, which is favourable, or will they insist on treating the UK as an external?

These are all unknowns that have been asked of our economic colleagues. They said that business hates unknowns.

Legally, you can of course agree everything, if all 28 agree and if it is in line with WTO regimes. That is another legal problem. If new agreements are concluded in the business area, not only do they have to comply within EU regulations; they have to comply with the WTO regulations, and then we have to consider whether this is a new regional trading agreement, which needs specific regulations. You know something about that as well. These are all complications. I am afraid I cannot give a clear answer.

Q61 Tom Blenkinsop: The reason I ask that is that, in Norway, most of their fish is sent to Poland to be processed and then sold in the EU market. Poland picks up that end of the market. The last question I just want to ask is on the flip side of it, if you like. How do you see political parties and also people in the Republic? Do you have any notion of what their view or perception would be of this situation, in relation to Northern Ireland as well as the wider UK, if there was a Brexit situation?

Dr McCall: All of the main political parties in the Republic are alarmed at the prospect of a Brexit. Their cause for alarm comes from a number of different sources. There is of course the border issue, which we have discussed in depth, but there are other issues relating to trade and the Republic of Ireland's place in this EU. Hitherto, it has followed the UK, certainly on justice and home affairs issues, the Schengen being one example, although it has diverged in terms of monetary issues, joining the euro, etc. There is a lot of alarm on multiple fronts, not least to do with the border and intergovernmental relationships with the UK.

Dr McGowan: It is amazing to see, in many ways. You have a lot more interest coming from south of the border on the whole issue of the UK and Brexit than there has been so far in the north. In terms of the politicians, current politicians or former senior politicians are all coming out saying Brexit is a bad idea, particularly for Northern Ireland. There are academics coming out and some businesses. A number of businesses are again coming out and saying they want the UK to stay in Europe.

Q62 Lady Hermon: I am really sorry that we are so constrained for time, and I am sorry that some of our colleagues have had to leave, because the business of the House started at 11.30. It is in no way meant to be disrespectful and I hope that you understand that.

Chair: I should say that the Chairman has a question at Question Time. That is why he has had to leave.

Lady Hermon: Given the breadth and the depth of the information that you have given us, in a very small time scale here today, I wonder if you would mind, in a few weeks' time, if we had further questions. After we have taken evidence from other witnesses, there may well be further political issues and legal issues that would come to the fore. Would you be so kind as to come back and see us again to give us evidence or even give us written evidence, if we were to ask further questions?

Dr McCall: I would be delighted, certainly.



HOUSE OF COMMONS

Lady Hermon: As I say, I am sorry it has been so constrained. I found it fascinating. There are so many other questions I have written down here, but I do not think the Chairman would allow me to run through those.

Chair: As long as we are quorate, but Tom is anxious to move. Go to your best questions.

Lady Hermon: No, I do not think it is fair to other colleagues who want to get into the Chamber. If you did not mind coming back, it would be very helpful, when we have taken evidence, to come back with further questions.

Professor Schiek: I would have liked more time for preparing.

Lady Hermon: Thank you. I agree.

Gavin Robinson: We did not expect you to agree so quickly, because we only mentioned you last week and here you are.

Professor Schiek: You can see that I am interested in the issue and that I made time for it, so it would be good to have some more time to speak on it.

Lady Hermon: The legal issues are very complex indeed and we were very keen to hear from a lawyer. We are not all lawyers on this Committee. It is a very complex area. It needs further exploration and we are very grateful to each and every one of you for coming today. It would be good to have these witnesses back at a later stage.

Chair: We will consider that. Can I just thank the panel for your expert evidence? It has been very good and very thought-provoking, so thank you. It has been a very good first day.