



Select Committee on the European Union

Corrected oral evidence: Brexit: UK-Irish relations inquiry

Tuesday 18 October 2016

11 am

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Members present: Lord Boswell of Aynho (The Chairman); Baroness Armstrong of Hill Top; Baroness Browning; Lord Jay of Ewelme; Lord Selkirk of Douglas; Lord Whitty.

Evidence Session No. 9

Heard in Public

Questions 100 - 107

Witnesses

Dan O'Brien, Chief Economist, Institute of International and European Affairs, Edgar Morgenroth, Associate Research Professor, Economic and Social Research Institute, and Niall Gibbons, Chief Executive, Tourism Ireland.

Examination of witnesses

Dan O'Brien, Edgar Morgenroth and Niall Gibbons.

Q100 The Chairman: Good morning and welcome to our second formal panel session this morning. We are the House of Lords European Union Select Committee, which is the overarching Committee. We are not here to give you a lecture on the details of our Committee's structure, but there are sub-committees within it.

As part of our Brexit analysis, which is going on even as we speak at the technical level in relation to many of the areas—for example, agriculture and economics, security, home affairs, justice, institutions and financial affairs: the whole spread—we identified as our main Committee the importance of looking at the important and sensitive Anglo-Irish relationship. We had one day in Belfast yesterday and we have one day here in Dublin to inform that and to do a report, in a fairly short time, to alert our Government to the issues as we see them.

Certainly, we would wish to have a continuing relationship as the negotiations proceed. We would very much like to hear from you as that happens, and if there are any difficulties you identify along the course of the way we would like to hear them, because we are all, slightly, in uncharted territory.

Having had the first session this morning with political scientists, we now come to an area with which some of us are more familiar, surprisingly, which is the economic impact. We are very grateful today to have Dan O'Brien, chief economist of the Institute of International and European Affairs; Edgar Morgenroth, who is the associate research professor at the Economic and Social Research Institute; and a voice from the front line of the economy, Niall Gibbons, the chief executive of Tourism Ireland. We appreciate your time, gentlemen, with us today.

We will examine these issues, to some extent, pro forma, but please feel that this is a session in which we want to inform ourselves rather than rehearse our own views. There is some constraint on time and I am conscious of that—it is my job—but if you wanted to make initial comments to us that would be helpful. Dan, do you want to say anything in introducing yourself formally?

Dan O'Brien: Sure. You suggested two minutes, so I will take two minutes. Thanks for the invite. It is a pleasure to be here. Economists do not agree on many things, but the one thing we do agree on is that the more barriers there are to commerce, the less commerce there is. That is as true within countries as it is among and between countries. Ireland's trade relationship with the UK is enormous. It has declined a great deal over the years, largely because of successes in diversifying markets, but if we add Irish goods and services exported to the United Kingdom, it is equivalent to 17% of GDP in 2014. UK exports to all 27 members of the EU equate to less than 13% of UK GDP. So, our export relationship with you is bigger than your export relationship with the entire EU—all 27 member states—relative to the size of the economies. That is just to give

an indication of why, sometimes, I feel we are more concerned about Brexit in this country than, maybe, some people in the UK.

The Chairman: May I interpose on that? We have not asked the question in terms but, as to the public debate, is there any sense here that you might be hit more by our decision than we are?

Dan O'Brien: That is unquestionably the case. You see it already, given the exchange rate movements, in the farming sector. The farming sector is the most vulnerable sector overall, in terms of the focus on the UK market. If the UK decides to revert to a cheap food policy after Brexit and unilaterally decides to reduce tariffs on products such as Latin American beef and New Zealand dairy, that would pretty much decimate the food side here.

The Chairman: I ought, perhaps, at this point to declare an interest. About 50 years ago, as an agricultural economist, we did a lot of work preparatory to Britain's succession to the European Union. So one is familiar with some of the arguments from a long time ago and even how a cheap food policy used to work. Thank you for that. Is there anything else you want to add?

Dan O'Brien: I have worked for the European Commission on negotiating a free trade agreement. It was the most difficult thing I have ever been involved with on a professional level. It seems to me that the legal, administrative and technical challenges facing your country are so enormous that I struggle even to map them out in my mind. You have many excellent questions that you have forwarded. I will admit to you, quite frankly, that I have absolutely no clue how to answer an awful lot of the questions.

The Chairman: That is news in itself and not derogatory to you. Edgar?

Edgar Morgenroth: Good morning and thank you for the invitation. It is a pleasure to be here. It is a pleasure to see a Committee come here and take evidence in Ireland.

I have been involved in a good number of studies now on this issue, and as a sign of how seriously it is taken in Ireland the Irish Government commissioned us to do two pieces. I have also been involved in some work with the IIEA and other work now, looking at the wider issues around Europe.

We looked at four different areas. Trade is always the big one that seems to dominate the debate. There are a few other areas that are also important. There is the whole issue of FDI, which is probably a bigger concern to the UK. There is the issue of migration and the issue of energy markets. Again, this is something that is peculiar to the British-Irish relationship in that we are quite closely connected on the energy side.

Dan has already mentioned the importance of trade, and what that shows is the openness of Ireland to trade in general. While the UK is seriously important to us as a trading partner, the rest of the EU is more important

still. For that reason, there has not been any kind of debate in Ireland about whether we should join Britain in leaving the EU. That is explained by self-interest: the EU is so much more important to us.

One thing that I raised, which has recently popped up in debates here, is that it is not just about exports but imports, and that is important to the UK as much as it is to us. Ireland is very closely linked to the UK in terms of supply chains. If you look at the importance of UK retailers in the Irish market, the wholesalers that supply the Irish market are typically based in the UK, and that could, potentially, trouble our supply chains, raise prices and, therefore, have competitiveness impacts beyond the pure Brexit effect.

The Chairman: If I might cite a comment that was made yesterday in the evidence we took in Belfast, people were talking about supply chains in relation to the agrifood business. They were making the point that what I used to call the fifth quarter, the bit that is not necessarily always consumed as steaks or whatever—the offal and other parts of animals—may well have a third-country destination. Clearly, third-country trade is very relevant to the overall return for the farmer or along the way in the food chain. I take it that is an example of what you mean.

Edgar Morgenroth: That is correct. There are many areas. Anecdotally, one hears, for example, that cheese produced in Ireland goes to the UK for packaging; it then comes back to Ireland and is then sold. The supply chains have become very complex. While the most complex, probably, is in the area of car manufacturing—Ireland does not have very much of this—even in agrifood, which is much simpler, we import a very substantial proportion of our ingredients, and some of that comes through the UK. You can go through all the individual sectors, and you will find in each sector there are very strong linkages not only in the supply chain and the intermediates but on the retail side.

The Chairman: Thank you. I do not know how they rate formally, Niall, but the tourism and hospitality sector must be a central Irish interest alongside the agricultural and food sector. I am very grateful to see you here. I wondered if you would like, briefly, to present your take on the impacts for your particular sector.

Niall Gibbons: First, I should say welcome to Ireland and welcome to Dublin. We are delighted to see you here. My name is Niall Gibbons and I am the chief executive of Tourism Ireland, and we are the agency that was established under the Good Friday agreement to market the island of Ireland, north and south of the border, as a holiday destination.

We have seen five consecutive years of growth. Last year was a record year: 9.5 million people visited the island of Ireland as a whole, spending €4.9 billion. Growth is continuing into 2016. The latest official data available shows that visitors to the Republic of Ireland up to the end of August were up 12% on last year's record year. For Northern Ireland, the first quarter growth is 8%, and, from all the industry anecdotes, it has been very positive for the summer season too. It is a vital industry for

the island of Ireland. Tourism is woven very deeply into the fabric of Irish society. It is responsible for 4% of GNP here in the Republic of Ireland and it employs over 220,000 people, which is about 10% of the country's workforce. Similarly, in Northern Ireland it is responsible for 5.2% of GDP and supports 43,000 jobs, which is one in nearly 18, in Northern Ireland, and growing.

Great Britain is the largest single market for tourism to the island of Ireland, with 47% of all overseas visitors coming, and around 30% of overseas tourism spend. In 2015, we welcomed 4.5 million British visitors to the island of Ireland, a 10% increase over 2014, and this year the figure will not be far off 5 million visitors from Britain to the island of Ireland. It is continuing to grow very strongly.

Lord Jay of Ewelme: Is that 5 million visitors or 5 million visits?

Niall Gibbons: This is 5 million visitors from Great Britain to the island of Ireland.

The Chairman: Visitors.

Niall Gibbons: That is correct. It is unique visitors, yes, exactly. Ireland is also a significant market for the UK, by the way. According to our colleagues in Visit Britain, we are the fourth largest market to the UK in terms of visitor numbers, with more than 2.6 million Irish people travelling to the UK, contributing nearly £1 billion in tourism.

Since the referendum on 23 June we have been closely monitoring the implications for the tourism industry here on the island of Ireland, and it has given rise to a number of factors that I will just touch on. First, general economic uncertainty impacts on consumer confidence, which, in turn, has consequences for demand and generally on travel. According to Oxford Economics, who advise us, the number of British people travelling abroad to all destinations next year is likely to decline by 2.4%. This figure will be reviewed at the end of October and will be expected to have declined even further.

The Chairman: That reflects currency issues, I suspect, partly.

Niall Gibbons: And general uncertainty; yes. So it will, undoubtedly, have consequences for the island of Ireland.

Secondly, since the referendum there has been a depreciation of sterling of 18% against the euro, which has made the eurozone, as a whole, more uncompetitive. Given our dependence on Britain as a source market, the island of Ireland is likely to be more impacted than other eurozone countries. This may provide Northern Ireland with opportunities in the short term, obviously, being part of the sterling zone.

Thirdly, Northern Ireland has seen strong growth in overseas tourism in the last number of years. With 950 international tour operators now programming the island of Ireland as a whole, 75% of visitors from North America to Northern Ireland and 68% of visitors from Europe to Northern

Ireland arrive via the Republic of Ireland. The future of the common travel area is, therefore, vital to our business.

Fourthly, the British-Irish visa scheme, which was announced by the UK and Irish Governments in 2014, and the short-stay visa waiver programme introduced by the Irish Government in 2011 have provided a significant boost to our marketing efforts in developing markets such as China, India and the UAE.

Tourism Ireland and VisitBritain signed a memorandum of understanding in April 2014 with the aim of working more closely together, particularly in long-haul markets outside Europe and North America, to promote the island of Ireland and Great Britain as destinations to be visited as part of a single holiday.

Over the past two years the two organisations have worked together to highlight the British-Irish visa scheme in India and China. We welcomed last week the announcement that the short-stay visa waiver programme is to be extended for a further five years to 2021, and we hope to get clarity shortly on the future of the British-Irish visa scheme.

Looking ahead to 2017, Oxford Economics has revised its tourism growth forecasts for the island of Ireland downwards for the third time this year since the Brexit referendum. It has identified that Ireland and Northern Ireland are the destinations that are most exposed and most likely to be impacted by Brexit. It is a situation that we, along with our industry partners, will continue to keep under review.

Lord Chairman, that was just a brief overview of the potential implications of Brexit on the tourism sector. I am happy to take any questions you might have.

The Chairman: I am going to ask Baroness Browning to come in in a moment. You mentioned the Oxford Economics survey. I do not know if that is available to us or whether we can get a summary of it, at least, that we could reflect on before we leave.

Niall Gibbons: We share it with our Board. We are happy to give you the information.

The Chairman: Please feel that the other participants—the economists—can contribute. As we have started with Niall's presentations, it would be sensible to ask Baroness Browning to come in on that.

Q101 **Baroness Browning:** Could I ask you in practical terms what you think the impact of Brexit will be on the cross-border tourism co-operation, and could I float something else into the statistics that you have just given us, particularly the predicted numbers? There is no doubt that in the UK there is a certain nervousness—this is not a scientific fact—about where people go on holiday now because of the situation, particularly around the Mediterranean countries. People are tending to want to go on holiday nearer to home or to stay at home, for that reason rather than because of Brexit. That obviously opens up a good opportunity for UK and Irish

tourism. Where do you think the real problems will come post-Brexit?

Niall Gibbons: You raised a couple of things. The first is the safety and security issue, which existed regardless of Brexit anyway. We have seen since the Arab spring of 2011 that tourism in countries such as Tunisia, Morocco and Egypt, which are highly dependent on the tourism industry, has been decimated. A lot of that market share has been pushed into mainland Europe. Certainly, over the last 12 to 18 months, the awful atrocities that we have seen in France, Turkey and Brussels have had a further impact on central European travel. The winners this year in overall travel to Europe have been Scandinavia, Ireland, Spain and Portugal—destinations that are seen as safe havens.

I know from talking to our colleagues in London that visitor attractions had quite a difficult year, particularly in the first half of the year. While the sterling issue impacts from a competitiveness perspective, there are many other factors that encourage people to take a holiday in a particular destination. The factors I have outlined here are that general economic uncertainty is not good for the travel business in general. Secondly, the eurozone as a whole, not just the Republic of Ireland, is 18% more expensive, so we are all going to have to be more competitive if we are to maintain our market share.

Practical arrangements such as the visa schemes that I mentioned have been really positive in opening up destinations such as China and India. It is really important that the UK and Ireland work together. Remember, the Schengen zone has about 25 countries in it, and countries like France and Germany are attracting up to a million visitors from China, when the UK does not even have 300,000. The island of Ireland has about 50,000. There is a great potential. China is the largest outbound market in the world. In excess of 130 million Chinese people will travel abroad this year, although there may be only 5 million to Europe, but there are still great opportunities for the two destinations to work together.

In relation to the United States, the major change is sterling against the dollar, and that will make the UK very attractive next year, but I also bear in mind that 30% of people who come on holiday to Ireland from the United States come backtracked via the UK. So there are swings and roundabouts here. But, overall, Ireland is a much more exposed destination than the rest of the eurozone.

Baroness Browning: What are the implications for the north-south borders for tourism? Something that looked like the Cyprus arrangements would not be good, would it?

Niall Gibbons: I have been in tourism for 15 years. Tourism across this island has experienced an amazing renaissance. Compared with where we were back in 2002, Northern Ireland now attracts 21% of all overseas visitors to this island, which is quite a healthy share. Of course, we want to see that grow. Experiences such as Titanic, the fact that the Open is coming in 2019, the G8 summit being held in Fermanagh, and the Irish

Open at Royal Portrush, Royal County Down show that there will be huge advances. We need to build on that and capitalise on it.

The international tourist generally does not recognise borders. They are coming for an experience. Working together with the north and south enriches the Ireland experience and serves to inspire the international visitor to come here. The people who work with us very well overseas, such as the National Trust and Titanic, are reaping the rewards. Our visitor numbers from overseas markets are incredible.

The other statistic that is really important from an interdependency perspective is that this summer there were 537,000 seats every week flying into the island of Ireland, around 70% with access into Dublin. That makes it really important from the Northern Ireland perspective, particularly for markets like the United States and mainland Europe. Most people who arrive in Dublin would, of course, like to see more and go to Northern Ireland, but to speak of borders is not good for our business.

The Chairman: Simply in terms of your liaison with the Irish Government, the Northern Ireland Executive, and the British Government to some extent, how much do you think the impacts that you have described to us are understood by them, and how easy an opportunity is there for you to make sure that that point goes home?

Niall Gibbons: It is great to have an opportunity to speak to this Committee, because it is important that we deliver our message to every platform that we get. It is important that we remain calm and composed about it, because there are still many issues in relation to Brexit. We do not know how it is going to play out. The ball is going to bounce in a certain direction. The job for all of us is to maintain a €5 billion overseas spend in the face of fierce competition from overseas. There are emerging destinations coming out all the time. We need to encourage our own Government and the Northern Ireland Executive to continue to invest in marketing. It is a bit like going to the supermarket; if there is no Persil on the shelf, they will buy Daz. This is about maintaining our brand investment overseas. It is great that the World Economic Forum has ranked us fifth globally in marketing effectiveness. The dependence of tourism to Ireland is very significant. We will use every platform we can to make people aware of the importance of the tourism industry to the island of Ireland.

The Chairman: Thank you. To our economists on the panel, do you want to add anything specifically about the tourism and hospitality sector?

Edgar Morgenroth: We looked briefly at the tourism industry in one of our reports. We did not particularly consider the short-term impacts, such as exchange rate volatility, which faces the tourism sector anyway. Something could have happened to the British banking system that might have had the same effect on the exchange rate that would have been difficult for the industry. We were looking a little more at the long-term impacts. Provided that nobody is proposing to close borders to tourists—even countries like Tunisia never did—I would see no specific long-term

impact from Brexit other than the issue of co-operation. If that were not to exist, it would have some kind of an impact on developing market share. With Ireland being a relatively small destination, particularly seen from very far away like China or the US, it is easier to play alongside a bigger destination such as the UK. The long-term impacts are likely to be small if we can maintain the co-operation.

The Chairman: Dan, do you have any perceptions?

Dan O'Brien: I have one point for perspective. The numbers visiting Ireland relative to the population are greater than a country like Spain, which one associates much more with tourism. I would point out that openness brings many benefits. Ireland is a very open economy, no matter what way you cut it, financially and with tourism, as an example, so openness also comes with risks. If you get any kind of knocks, it can have much bigger effects than in larger economies.

Q102 **The Chairman:** In particular, I thank Niall for his comments on explaining the tourism scene. Do feel free to contribute from the point of view of the SMEs and, as it were, the active economic sector alongside our economist colleagues.

We will turn now to some of the macro issues, if we may. You will be aware that the new Brexit Secretary in the UK, David Davis, has identified UK and Irish issues as some of the more difficult elements of the negotiation. It would be helpful to get an opinion early on as to what you think the main difficulties are that need to be addressed. Perhaps, to save time, I could suggest that you also respond to two questions, the first being about the level of information in decision-making and the input of these interests into the British, Irish and Northern Ireland Executive; and, secondly, whether it is sensible, and if so how, to look at a common UK-Irish approach to some of these issues alongside the other 26 that will be party to this negotiation. How much is it in the interests of this island to be looking possibly for special arrangements or at least an understanding of what the special difficulties are? Who would like to start on that?

Edgar Morgenroth: I mentioned the four areas that we looked at. In relation to trade, Ireland has pretty much the same objective as the rest of the EU in wanting to keep it as free as possible. That is not special other than that we are exposed in particular sectors, and so on.

The Chairman: Can I just probe you on one point on that? It is often said that one of the issues in Britain is that we may do a lot of trade with other countries, whereas collectively the EU does a lot of business with us. Individual EU member states, possibly excepting Ireland, Germany and the Netherlands, do not so much relatively speaking, so they may be less exercised. How much do you see that as a potential trap in the negotiations?

Edgar Morgenroth: Potentially, yes. If you were Croatia and negotiating on your own, you would not bother negotiating on trade with the UK because it does not do much trade with the UK. It is something like 1%

of its trade. It is tiny. But for many, particularly the larger, EU countries, it is significant. In that sense, Ireland has very much the same objective that Germany or France would have. Clearly, there are countries that do not trade much with the UK. On trade, we have very much the same objective.

On FDI, I suppose Ireland's objective will be to try to attract some from the UK. That might be seen as an upside, and it probably is the same, although the ability for some countries to attract some of that might be less.

On energy, Ireland has a very unique position, but it is something that mostly can be handled quite easily bilaterally. It changes the calculus on energy-security issues and the connectivity to the wider European electricity market, which we are not connected to other than through the UK. That is something that is unique to Ireland.

The very important issue is migration, which is relatively unique. The level of migration between these islands is very substantial. It is no longer as important. I checked before I came here. Non-UK and EU citizens who are resident in Ireland outnumber the UK citizens resident in Ireland by just a bit over 2:1. If you go back 15 or 20 years, that would not have been the case.

The Chairman: They in turn are a complicating factor if there were to be a bilateral deal, for example, based on the recognition of the two citizenships.

Edgar Morgenroth: Yes. That is correct.

The Chairman: But, excluding other EU nationals, that would be quite sensitive.

Edgar Morgenroth: In relation to a bilateral deal, I do not see where this might come from, because it is the EU that has the responsibility to negotiate on migration and trade issues with non-EU members. That is going to be the difficult one. Then, of course, the really big issue is Northern Ireland. Again, there is no other country in the EU with similar issues. Migration and Northern Ireland are probably the most pressing issues. The energy one is important, but that can be dealt with. I believe the existing contractual arrangements are probably robust to a Brexit. There is some change in the calculus on energy security, but again that can be handled.

The Chairman: Dan, do you want to come in?

Dan O'Brien: Yes. I might be more concerned about the future of the trade and investment relationships than Edgar. If we take France, France's exports of goods and services to the UK account for about 2.5% of its GDP. If there were to be a one-quarter decline in French exports to the UK, it would probably not even push France into recession. France, as is well known, has long, deep, historical protectionist instincts, and it is certainly not a country that is behind the door in pursuing those interests

when it sees an opportunity to do so. That, in my view, possibly puts Ireland's and France's positions at different (and extreme) ends of the spectrum of Member States when it comes to giving the UK market access to the Single Market. So when it comes to influencing the negotiations, as Edgar said, on the trade area and particularly an exclusive EU competence, bigger countries will have more say. To go back to France as an example, that country has potentially more to gain by having a less free relationship with the EU-UK, and that, of course, is a concern.

A second point is that the higher the trade barriers that come into existence post-Brexit, the more of a dislocation effect there will be on economic activity in terms of company investment. In Ireland, as in some other member states, there has been almost a scramble for investment from the City, which is certainly a potential upside for Ireland and other countries if those barriers are significant and there is large-scale disinvestment from London. It works the other way as well. For Irish companies that are focused on the UK market, the higher the barriers to trading into the UK, the bigger the incentive for them to relocate at least part of their operations over those barriers into the UK. That will mean job gains for you but job losses for us. In general, the more barriers you have to trade, the more dislocation there is going to be as well as reduction in interaction.

The Chairman: Which may not lead to the economically optimal outcome.

Dan O'Brien: Precisely.

Baroness Browning: Could I just ask Edgar a quick point? You touched on energy, and unfortunately on this visit we have not been in a position to have any detailed briefing on energy. Under the Lisbon treaty, energy became a competence of the EU. You seemed to think it was all fair wind on the energy front. Suppose Northern Ireland is in a different regime from the EU in the south, and the sale of energy was linked to EU policy, particularly in the environmental field, with sums of money attached as conditions. How problematic is that going to be?

Edgar Morgenroth: I would not say "fair wind", to clarify that, and likewise on trade I might come back to that. We have done some very detailed analysis on that. In relation to energy, there is no fair wind, but the immediate relationships that we have are robust to Brexit. There are implications, obviously. On the island of Ireland we operate a single electricity market. Northern Ireland and the Republic of Ireland have one market that operates completely without barriers, and the prices that apply here are the same prices that apply in Northern Ireland.

The Chairman: To be pernickety, that is at the wholesale level, presumably.

Edgar Morgenroth: That is right.

The Chairman: At the retail level, that would be differentiated by the supply.

Edgar Morgenroth: Importantly, Northern Ireland imports electricity from the Republic of Ireland. As energy and environmental regulations or laws change, that will have an impact on energy prices. That could happen if the UK changes its energy and environmental laws; likewise, if the EU requires us to jump higher in terms of carbon emissions or whatever. That will then have an impact directly on the other part of the island, depending on what happens. That could be good. It could push down prices for Irish customers or it could raise them for Irish customers, and vice versa for Northern Ireland. We do not know at this point in which direction we are heading, so it is very difficult to say whether this is going to be good or bad. It certainly can be good or it can be bad. If it is good for consumers, it might be bad for investors. That then has an implication for electricity generation capacity.

The Chairman: And for security.

Edgar Morgenroth: And therefore security. Because we will now only be linked to the UK and not to the wider EU market, the calculus on investment for energy security will have changed somewhat. It might be optimal to connect Ireland to the grid in the EU—it would be an expensive project to connect to France—or, alternatively, to have something like an LNG terminal, which would free us from our link on gas to Scotland. That calculus would have changed. I do not think that in the near term the relationships that we have will be encumbered by Brexit, but over the longer term as policy evolves, yes, there could be issues. Of course, there are these potential investment decisions that we might want to change our view on.

The Chairman: Do you want to come back on any of the overview issues, in particular given that you are charged with working together across the island to promote tourism? Is there anything specific that you see, particularly in the perspective of a joint approach to the negotiations?

Niall Gibbons: I think that cross-border collaboration is absolutely vital. I have been working in Tourism Ireland for nearly 15 years; 70% of our funding comes from the Irish Government and 30% from the Northern Ireland Administration. We have had a terrific buy-in from the tourism industry. It is a great example of collaboration and action. I have a board of directors; six are appointed by our Northern Ireland Minister and six by our Minister here in the south. The conversations and dialogue are all about how we generate more business. That is the space that we want to keep it in. Issues such as the common travel area and talk of a hard border are anathema to our business.

The Chairman: That is helpful and in a sense short-circuits some of the questions to come. In pursuing the economic impact, I am going to suggest that we get Lord Whitty and Lord Selkirk to ask their questions together, if they have something further on this.

Q103 Lord Whitty: You have partly covered it, but, more explicitly, how far is the detrimental effect that you have described on the Irish economy dependent on the form of the Brexit and the final terms of the deal? That is my general question. I would also like to ask Dan to say a little more about the difficulties of negotiating an FTA post-Brexit.

Lord Selkirk of Douglas: Can I ask which sectors and industries will be most affected by Brexit? Also, on the other hand, which sectors will be least affected and, indeed, minimally affected? How can any negative impact of Brexit on the trading relationship between north and south and between the Republic of Ireland and the UK as a whole best be mitigated and be kept to an absolute minimum?

Dan O'Brien: Unfortunately, on the mitigation point, there is really very little that can be done.

Going back to the final outcome, it seems to me that it is not just a one-shock change. There is the uncertainty pre-Brexit. There is the transitional agreement, because it now appears very unlikely that there will be two twin tracks—that the final relationship will be negotiated by the time you leave. There is a period of time where you are in a post-Brexit transition. There is the uncertainty around the negotiations for the new comprehensive free trade and investment agreement; let us call it that. Then there is the implementation of that, which could be in 10 years. So this is an extremely long period of different phases of different types of uncertainty.

The Chairman: Although it is outside the immediate discussion, there is also the question about negotiation with third parties for free trade agreements there, is there not?

Dan O'Brien: I was going to come to that. Specifically, as to my own experience 20 years ago with the European Commission, there are parallels. There was a change of Government in Malta. I was involved in the diplomatic mission of the European Commission to Malta, and out of the blue they decided to withdraw their membership application to the EU. There was a period of uncertainty. They then decided that they were looking for a free trade agreement, and we got into negotiating a free trade agreement. Malta is a small country, so it was relatively straightforward, but the complexities of negotiating that, the files on different aspects of the relationship, the interconnectedness of it, the trade-offs between different files, meant that it was an extremely long and arduous process.

The UK economy is infinitely more complex and bigger than a small country like Malta. To unscramble all the eggs of 40 years of membership, then to rescramble them and at the same time start scrambling other eggs with third countries, from my own experience of it, is the most daunting of prospects. Frankly, I think there is a high probability that Brexit will never happen simply because it is such a complex task.

Edgar Morgenroth: On the impact across different types of negotiated outcomes, there is a fairly large degree of difference. We have looked at a few different scenarios, starting with the Norway-EEA type. Basically, most people have to use that as the softest Brexit—that is the softest Brexit now, and the Prime Minister has ruled that out, but we will see—and then all the way down to a WTO arrangement. If you are looking at impacts of GDP in Ireland after a Brexit, our estimates are that it will be somewhere between 2% and 4% relative to base.

We have looked very carefully at the trade impacts with a WTO outcome. In fact, I would have to disagree with Dan here, having done a very detailed analysis down to the product level of 5,200 products across the EU. France is only marginally less affected than Ireland. Germany would be more affected than Ireland. That is to do not just with how high the individual tariffs would be on individual products, and then watching people trade with the UK, but with how sensitive the demand is to price changes. Once you take that into account, I am sure you will find that Ireland is not as badly affected as we had initially thought on the trade side. Nevertheless, the impacts will be quite substantial: in excess of 20% of trade with the UK. In the case of Ireland, that would be somewhere between 3% to 5% of total trade.

The Chairman: Do you want to identify any particular sectors?

Edgar Morgenroth: The sectors that are most susceptible are agrifoods and traditional manufacturing. That has important significance to Ireland, because it is the area that is much more labour intensive and much more dominated by Irish firms and smaller firms. That is an important thing. Even regionally it is important, because those firms make up a much greater share of employment in the structurally poor regions of Ireland.

The Chairman: To put perhaps a rather simplistic formulation to get your response, would it be true to say that the harder the Brexit, whatever that means, the greater the potential damage to the Irish economy?

Edgar Morgenroth: Yes.

The Chairman: You would not dissent from that, and Niall, neither.

Edgar Morgenroth: You will not find an economist, I think, who would disagree with that statement.

Niall Gibbons: It is very hard to speculate on what these terms mean, but Oxford Economics has told us that it expects to see the number of British people travelling to all destinations next year fall by 2.4%. Depending on where things go, it sees the potential for the market to recover within the following two years. We are looking at 2017 to 2019, but there are so many factors involved. We are in the realm of speculation to a large extent.

Another enormous factor that impacts on our business is air access capacity. Our colleagues in Northern Ireland would cite APD and the level

of VAT as inhibiting factors to competitiveness. APD has been abolished in the Republic of Ireland and VAT has been reduced to 9% from 13.5%. They have been good, pro-competitive factors, so to speak, but air access capacity, given that Aer Lingus and Ryanair bring about 70% of people on to this island, is going to be a major determinant of overall numbers as well.

The Chairman: I wonder if Lord Selkirk could come in on some of the EU funding points.

Q104 **Lord Selkirk of Douglas:** I would like to raise the issue of EU funding for Northern Ireland. How would you assess the likely impact on Northern Ireland as a whole and the border regions as a result of the loss of EU funding? What will be the impact of Brexit on cross-border infrastructure projects, which I could mention? How can the balance be made up? Will the Treasury guarantees go a long way in that direction or is more required? What is your view about the long-term relating to the border issues?

Dan O'Brien: I do not have a strong enough view on that.

Edgar Morgenroth: Very broadly, there are two issues. One is the impact on Northern Ireland itself, and then there is the cross-border dimension. If you think of the regions in the Republic of Ireland, the one region that borders Northern Ireland has been able to draw down INTERREG funding from the EU. That will presumably cease to be available to them because they do not have an EU member state border, so they are probably less likely to draw funds down that source. In fact, there are very few structural funds available to Irish regions at this stage. It will have an effect there. Even if Northern Ireland gets the same level of funding from Westminster as a direct replacement, there will be that impact.

It is yet to be seen whether we will see a direct one-for-one replacement of those subsidies. It seems that, as almost all economists would agree that Brexit is a negative for the UK, then presumably there will be less money to be distributed. It might not be a one-for-one. That will obviously hurt Northern Ireland again, and Northern Ireland, I guess you will have probably heard, is very dependent on transfers from the UK. Public sector expenditure accounts for over 60% of GDP in Northern Ireland. It is very exposed to any change in its subsidy regime.

The Chairman: Niall, could you comment on some of these infrastructure issues, not only from the tourism viewpoint but, presumably, of residents of Donegal wanting to get to Dublin conveniently and at some speed? That is also the kind of problem that will arise with the domestic population, is it not?

Niall Gibbons: Yes. Tourism Ireland is not the beneficiary of any of those funds, but what we do see on the ground is PEACE and INTERREG funding, which are funds that get people working together that would never have worked before. Another practical example is our colleagues in

the Commissioners of Irish Lights, which are another unique east-west body, so to speak, which has a big tranche of INTERREG funding for doing up the lighthouses around the coast of Ireland, both north and south, and that is proving a great tourism draw as a new product. We have seen various cross-border projects over the years funded by both PEACE and INTERREG that have been of great benefit for us in relation to selling the island of Ireland in the overseas marketplace.

The Chairman: These are both direct but more particularly indirect effects.

Niall Gibbons: Yes. They do not fund us directly, so to speak, but they get people together and working on the ground. Again, you must remember that the tourist who is coming over does not have perceptions of a border, so to speak. The more the people do on the ground to work together, the more inspiring the message you will be able to deliver to the international operators.

The Chairman: I think we might, in our remaining time, probe some of the border issues a little. I will ask Baroness Armstrong and Lord Jay to ask their linked questions.

Q105 **Baroness Armstrong of Hill Top:** You have talked about trade, tourism and migration being important issues, and obviously the borders between north and south and what agreements are made in the future on those are very important. The British Prime Minister has said that she does not want a hard border, but on the other hand there will be the border, as far as the UK is concerned, with the EU. Do you have anything that we ought to hear on how you see the soft border being maintained, the difference between the EU and non-EU countries being established and so on?

The Chairman: Incidentally, before Lord Jay asks his question, we are coming up to our nominal time, but can you spare us five or 10 minutes more to conclude? I think we can finish in that framework.

Lord Jay of Ewelme: I wanted to ask a question that is border-related and the potential impact on the border of the UK deciding to leave the customs union. First, can you see a scenario in which the UK would leave the single market but stay within the customs union, which some people have talked about, which would make the border issue slightly easier to solve? Assuming for the moment that we are outside the customs union, do you think it inevitable that there will be some kind of customs controls along the border, or is there now some electronic means plus selective checking that would avoid having to have a hard or hardish border, which would clearly be in the interests of tourism as much as other things?

The Chairman: If I might gloss on that, there is a major economic driver about the movement of goods, HGVs and so forth. There is a subordinate issue about whether tourists in their hire cars will be irritated by having to stop in line and open their boots to show that they are not taking contraband items across and avoiding duty. Perhaps we can come to the macro issue first—also raising Baroness Armstrong's point—and then to

the tourism-related issue.

Dan O'Brien: It now seems that the most obvious route is that the UK will not be part of the customs union. This gets into the very technical issue of what kinds of technologies exist to minimise the extent to which customs posts have to do testing. I understand that there are technological advances that will allow it to be less obtrusive than it may have been 30 or 40 years ago. Given the island nature here, controls may be less onerous and problematic than the old-style ones one might picture of a border guard lifting up a post and bringing one person through. One can only hope so. These are the sorts of technical details, involving new technologies, in which I do not have a sufficient degree of expertise to be able to give you an informed opinion on how it would look.

Lord Jay of Ewelme: Is it your view that if the Government decided that ensuring that there was not a hard border was so important, they would be able to find ways? In other words, could this be a spur to new forms of border control that were not border control?

The Chairman: A virtual border.

Edgar Morgenroth: Perhaps. The question of the customs union is very pertinent to this issue. If the UK were to leave the customs union and to do trade agreements with Argentina or Brazil about beef, the Irish agrifood sector would not welcome imports from those countries coming via Northern Ireland, through a soft border.

The Chairman: There would have to be arguments about rules of origin and so forth.

Edgar Morgenroth: Exactly. Leaving the customs union would open up that particular issue. It would make a hard border almost inevitable, whatever that might look like.

In Ireland, sometimes people forget that there are lots of EU member states that have a border with non-EU countries. To see what a border in such circumstances would look like, one should look at the borders that we currently see between Poland and Ukraine or between Bulgaria and Turkey. They are quite substantially physical borders.

The Chairman: In fairness, Sweden and Norway would be a rather more—

Edgar Morgenroth: Again, that is the EEA.

The Chairman: It is an EEA country.

Edgar Morgenroth: Here we go back to the previous question. The nature of the deal that is ultimately agreed will determine a lot of these issues. Solutions could be found that would be less impactful, but there is a trade-off here. If Brexit means Brexit, as the Prime Minister said, and is going to be more hard, it is much harder to see how we cannot have a

hard border. If there is a hard Brexit, almost inevitably it will give us a hard border.

That raises all kinds of issues on the island of Ireland. The trade ones are probably much more minor than the political ones. The previous group may have dealt with that. I live very close to the border—I can see Northern Ireland from my house—and it is pretty permeable. I have often walked across it. It has always been a very permeable border—even at the height of the Troubles, when there were lots of checkpoints. That is not all that long ago.

I see the political side as much more important than the trade dimension. The trade dimension is manageable. One might find a technical solution. When we did not have the single market in the EU, there were barriers, but I cannot remember being stopped when going from Germany to Holland in my lifetime. There were no physical barriers. They were open.

The Chairman: I can remember being stopped at that border, but that is a long time ago. Niall, perhaps we should not forget the fact that a lot of this comes back from the general to the personal—the experience of individuals and clients, as you might wish to describe them. What is your take on the issue of borders?

Niall Gibbons: I will talk about a couple of numbers first, to put it in perspective. I will then take a practical example, to walk through the implications.

North American travel to Ireland is exceptionally strong. It is not because of the diaspora, which is in decline; our growth is coming from the likes of California and the southern states. We are linked by 16 gateways in North America on to the island of Ireland. Ten per cent of all US outbound travel to Europe now comes to Ireland, which is a very high statistic. Approximately 97% arrive in the Republic of Ireland. The regional spread is getting better, but 75%—and growing—of Northern Ireland's North American visitors arrive via the Republic of Ireland.

Take a practical example that is being invested in at the moment—Hillsborough Castle. It is a terrific property. Recently it was transferred to Historic Royal Palaces. Multimillion-pound investment is going in. It is a great part of the armoury that we will have, so to speak, which will appeal to the American visitor really well. However, to get there, you have to cross the border. You may continue your journey on to Belfast, where an extra pile of hotel rooms are being built at the moment. The sense is that economic confidence is very good. Belfast has had its best year ever for hotel occupancy in 2016. That has been getting stronger and stronger, so people are now building on the confidence there.

However, about 30% of our visitors from North America come on package holidays, where they get on a bus; some hire cars, too. If more barriers are put up, I see nothing but difficulty. The consumer does not want difficulty; they expect to have ease of travel. Anything that starts to put up borders in the way of our business is not good.

Our business growth thrives on open borders. It has been thriving—the numbers are there to prove it. There are about 6.5 million people living on the island of Ireland. In 2016, we will welcome 10 million visitors. It is a remarkable number. First Minister Arlene Foster, with whom I worked for a number of years, used the phrase “rebalancing the Northern Ireland economy”, which is very public sector-dependent. Tourism is an industry that can really lift and push that rebalancing, but anything that involves a border in our business has the capacity to set that back.

Q106 The Chairman: Thank you. We need to move towards a wrap-up. I have one more specific question for Dan. It is about sectoral issues. We have been hearing along the way—it appears in the press, for example—about the problems of mushroom farmers. Somebody was quoted as saying that this was the canary in the cage for economic troubles to come and some of the stresses that may arise with currency fluctuations, although recording the fact that we have operated two different currencies for many years. We know about hospitality and about agrifood; mushrooms are part of that, in a sense. How much are you looking out for those sorts of setbacks in the light of the Brexit decision? How relevant are they to future economic problems?

Dan O'Brien: I suppose that we have been talking a lot of negativity. As economists, maybe we are a bit dismal.

The Chairman: We hear about the problems, rather than the successes, do we not?

Dan O'Brien: My view, and the view of most economists, is that this is overwhelmingly a bad thing economically for both Britain and Ireland. Let us talk about something slightly more positive. The sector that will not be so affected by this is the very large multinational, mostly American, sector here, particularly in pharmaceuticals, financial services and higher tech. No European country has a similar dependence on a foreign multinational sector. It drives a huge proportion of exports. No other country in the OECD has more of its workforce employed by foreign companies.

Those companies are focused on the single market. For them, that does not change. Clearly, the UK leaving takes part of that, which is negative, but they are focused primarily on the continental market, which remains there. It is important to emphasise that there is no real question of Ireland following the UK out of the EU, because that is the main economic interest. The motor of the Irish economy is that multinational sector. It needs access to the single market, so there is no question of pulling out of the EU.

The Chairman: Following on with a thought, if that is the case, albeit that you may not have quite as big a macro problem as you thought, there may be acute regional problems that arise where is not such a high exposure to these international sectors. Is that fair?

Dan O'Brien: Exactly. At the other extreme, if, as I mentioned earlier,

Britain were to go down the road of a cheap food policy, to leave the customs union and unilaterally to reduce all or most tariffs on imported food, that would have a disastrous effect on the farming sector here. In the rural areas, you may not have a large number of high-end US corporations, so it could have devastating regional implications for that sector, which is most exposed.

Edgar Morgenroth: To start with mushrooms, it is a sector that has been trading on very small margins and that exports almost entirely to the UK. There was a time not very long ago, in 2009 and 2010, when the exchange rate was more or less the same as it is now. The mushroom tunnels, which are just down the road from me—I live in rural Ireland, along the border—were not operating. They came back when the exchange rate was in their favour. It is a business that will go up and down. Under the WTO, mushrooms are not subject to any tariffs, so that will not affect them. I checked it out before I came here.

Q107 **The Chairman:** As we draw towards a conclusion, I would like each of you to make a final comment, picking up two things. First, had we had more time, we might have wanted to explore the peace process. You would not necessarily claim to be experts on that, but you clearly have an interest in it. I can gloss that by saying that we—and, I am sure, you—have an interest in both the reality and the perception that this island is a peaceable place where people get on with one another and the atmosphere is not one that will threaten overseas visitors, for example. You might like to comment on that. More generally, if there is any aspect of the economy or sectors of it that we have missed or if there are any messages that you want to share with us, please feel free to do so. Niall, would you like to start?

Niall Gibbons: I think that I have articulated all the issues relevant to our industry. The issue of peace is an interesting one. I have been involved in north-south dialogue for about 15 years. The conversations now are like day versus night, compared with what they were. The peace process has been an amazing journey. It takes time. The more we can engage in dialogue and cross-community and cross-border work, the better.

The Chairman: Can I come back to that on one point? I am sure—we have heard it elsewhere—that that is true at what you might call the official level, in public bodies and otherwise. We have had evidence to that effect. Is it your sense that it is also true at the more interpersonal level? I do not necessarily mean at the formal, intercommunal level. Do people feel easier in making visits that they previously would not have done, or otherwise?

Niall Gibbons: There is no question about it, but there is still a journey to go. There are a large number of people in the Republic of Ireland who have not visited Northern Ireland. There are lingering perceptions of safety and security that arise in international research that we carry out. However, that is improving. It is a long-term trend.

The Chairman: It would be helpful to have any of the information that you can share with us on that.

Niall Gibbons: Sure. We can supply that to you. Peace drives tourism, and tourism drives peace. That is internationally recognised. We can be very negative sometimes in considering the Brexit issue, but I would finish on a high note. The Irish Government and the Northern Ireland Executive are working hand in glove on the bid for the Rugby World Cup in 2023. That is a great example where all of us are working together—shoulder to shoulder, as we say in the Irish rugby team—for the benefit of everybody.

The Chairman: We have conflicted loyalties in my own family on that. I need to declare an interest.

Edgar Morgenroth: To pick up from that point, I gave a briefing to Permanent Secretaries from Northern Ireland in the Department of the Taoiseach, where they were hosting their counterparts from Northern Ireland. So depressing is this Brexit issue that, after me, they had to have the IRFU in to talk about the bid, to lighten the mood.

I will make one brief comment. I have done a fair bit of research on this issue, going back to 2012; I started looking at it early. The more I look at it, the more I find issues that are very detailed. We have had an hour here. Dan mentioned the trade negotiations. The reason why trade negotiations take so long is that you are going into the nitty-gritty. The nitty-gritty really matters here. Until we have all that sorted, we will continue to see uncertainty, which is not good for tourism. It is not good for the rest of the economy either, because it will reduce investment and so on. The devil is really in the detail. The debate has not been sufficiently on the detail. Even at official level, there is an awful lot of work to be done to sort this out and to get an agreement everyone can work with.

Dan O'Brien: I have three final points. Extreme uncertainty that is very hard to quantify and lasts for a long period of time will be difficult just to map, think about and deal with. Another point that has not come up is a concern that the EU will become less liberal. The departure of a large and traditionally liberal country will shift the centre of balance—the centre of gravity—in the EU. That would cause considerable concern here. I do not know whether anybody else has raised the issue with you.

Finally, I do not claim to be an expert on the north, but northern society is unusual and very divided. Divisions and insecurities are significant. I do not think that Brexit will help, but my instinct would be that it is not enough to tip Northern Ireland back into negative, dangerous territory.

The Chairman: Thank you very much, on behalf of us all. We are very grateful to our three participants this morning, Niall, Edgar and Dan. You have given us some very interesting perspectives and quite a lot of depressing information, but also, I am pleased to say—because we are not in the process of preconceiving this—some indications of positivity or

opportunity, which we will reflect on. It has given us a chance to take more seriously and to embrace some of the economic issues and challenges.

We are very grateful for your contribution. To borrow TTIP language, it is a living agreement or a living dialogue, as far as I am concerned. We will want to come back on many of these issues. If you can share with us either data that you have or anything that is upcoming, we would very much value that in the future.

With that, I will formally conclude the session. We will reconvene in this room at 2.45 pm. We have business over the road meanwhile, but this session is now closed.