HOUSE OF LORDS

Select Committee on the European Union

Corrected oral evidence: Brexit: UK-Irish Relations

Tuesday 18 October 2016

2.45 pm

Watch the meeting

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. 10 Heard in Public Questions 108 - 111

Witnesses

I: Pat Ivory, Director of EU and International Affairs, IBEC, Patricia King, General Secretary, ICTU, and John McGrane, Director General, British Irish Chamber of Commerce.

Examination of witnesses

Pat Ivory, Patricia King and John McGrane.

Q108 **The Chairman:** I apologise for a slight delay in starting. Reflecting a European phrase, it has not always been the House of Lords' style to interview the social partners, but we certainly did it in London pre-referendum with the British variant, and we have had representations since the Brexit vote. Moving characteristically quickly, the TUC came to see me. Many of us have links with various organisations in the UK. Looking here, it would not require a genius to work out that there are huge implications for Ireland as an island and for the Irish economy and political structure after the Brexit vote. In the inquiry we are carrying out in the House of Lords we seek to do two things: first, to try to bottom out some of the issues that are not clear, including those that are not yet resolvable, and, secondly, to assure ourselves that the lines of communication are open to those who will be making decisions, and that contingency planning is being done for those decisions before things are set in stone or are difficult to alter.

It would be helpful if you would individually introduce yourselves and say a word or two, and then we will get into the questions. We are becoming familiar with the questions we ask, but repetition at a level of wide representation and influence is always appreciated, and if there is something different, it will be even more interesting. Patricia, perhaps you would kick off and tell us who you are, and any particular take you have on the situation we are in.

Patricia King: My name is Patricia King. I am general secretary of the Irish Congress of Trade Unions, an all-Ireland body representing approximately 800,000 members across the island. About 230,000 are in Northern Ireland and the remainder are in the Republic of Ireland. We have membership across all employment sectors: the private sector, the public sector and the community sector. I would expect that we have a good opportunity to take a view in relation to most sectors from a worker point of view.

In Northern Ireland, in relation to Brexit, we intend to set out the case that, Northern Ireland being part of the UK, Brexit poses different issues from those in the Republic of Ireland. Having said that, the Republic of Ireland has very close relationships with Northern Ireland. As you rightly said, Chairman, the situation is very different for Ireland than for any other European state, and there may be the prospect of immense consequences for both parts of the island.

Northern Ireland is the most peripheral region of the UK, both geographically and politically, and, in the case of Brexit, would be the only region to share a land border with the EU. By virtue of its size, economic make-up and history, the forecasts for Northern Ireland could be very bleak indeed. From all those standpoints, there is a huge need, in whatever agreement is reached ultimately, to take major account of the circumstances of Northern Ireland. It is difficult to forecast the long-term effects on the Republic or Northern Ireland. I am sure the UK is in the same position. Nobody knows what the ultimate agreement will be like and how it will affect various trade and non-trade issues, but, if asked, I intend to give you some details, as I am sure other contributors will, on all economic aspects.

The Republic of Ireland has done some work to estimate some of the consequences. We have lots of views in relation to facts and figures, exports and trading between the two countries and so on. Another aspect is the all-island economy piece. As you know, we have the Good Friday agreement; one aspect of that was that cross-border co-operation would get a boost and be increased, and a fair degree of effort would be put into that. Interreg was a body set up to try to promote that. Its last report, which is not that contemporary, found that cross-border trade was not as good as expected, or hoped for—I suppose that is probably more accurate.

The Chairman: For the record, that is pre-Brexit.

Patricia King: It is, yes. However, one aspect is the energy link between Northern Ireland and the Republic of Ireland. Northern Ireland depends very heavily on coal, but 72% is gas for electricity generation. That comes ashore at Islandmagee from Scotland via the interconnector. Even on that one aspect, any interruption could be very difficult altogether. The Republic of Ireland has a dependency there as well as regards imports.

I would like to highlight two particular pieces, one of which is freedom of movement. We have the common travel area that allows for freedom of movement of people in that area. The idea of once again dividing up the island by border controls, quite apart from the economic consequences, is so regressive and negative that no matter what your political standpoint, I am not sure you will find anybody who will tell you it is a good idea. Although there have been some pronouncements about what may or may not happen, people here do not have hugely overwhelming confidence that a border will not be reinstituted, so that is a big negative.

There are about 470,000 Republic of Ireland-born residents in the UK, 40,000 in Northern Ireland, and there are an estimated 290,000 people who were born in the UK but are now resident in the Republic of Ireland. Clearly, freedom of movement for them under the common travel arrangements, apart from anything related to labour markets or anything else, is a concern.

The Good Friday agreement is based on the assumption that there is a continuation of EU membership by Ireland and the UK. The complexities of the relationship between North and South are underpinned by Peace II, as it is known, and a regional funding structure has been put in to solidify the whole peace process. We have to be careful how we say this, but on the face of it, we have had peace in Northern Ireland for a number of years, thankfully, but that is not to say that the Troubles are just a past memory, because the reality is that they are not. Disruption to the

Good Friday agreement could be the cause of something altogether very negative.

All the citizens of Northern Ireland have shared European identity, which provided crucial confidence at the time to the minority nationalist community. Part of that agreement was the incorporation of the European Convention on Human Rights into Northern Ireland law. That is part of the Good Friday agreement and is lodged as a treaty in the UN. All of that is parcelled up in that agreement, built on the foundation of the UK being part of the European Union. What are the consequences of the UK coming out of the European Union? That is another consequence that is not just a trade one.

From our perspective, the other piece I would highlight is that considerable worker rights are enjoyed—hard-fought and hard-got, but won—and they have been based on various European directives over the last 43 years. They range from equality legislation to health and safety, organisation of working time, part-time work and all that, and they are and have been very valuable to workers across the island. In the event of those pieces of legislation no longer applying in the UK—albeit there is devolved government and that they are a devolved piece in Northern Ireland—there is no confidence that competitive pressure will not build in both the Republic of Ireland and Northern Ireland: "Well, if you want to trade with us, here is the price of it", and in order to bring down the price of trading, companies would believe they were forced to pay less or to bring down their labour costs. That would put huge pressure on workers here in the Republic and in Northern Ireland. From our perspective, that is a really negative piece, and we in the movement will campaign strongly to try to stop it.

We have already met the Minister for Foreign Affairs in our own Government. He has already told us that he understands that it is a big issue, and that he would not stand over until we know what is going to come out of this. In a brief opening statement to you on the issues, that is where we are coming from.

The Chairman: As a brief follow-up—keep the answer as brief as you can, given the timing—I assume there is also a potential industrial relations issue. If there is a workforce on site, as there will be in certain places at the moment in practice, say electrical contractors, sourced from Northern Ireland and the Republic, and people have different terms and conditions and different labour laws apply, it will not be an easy relationship to manage, will it?

Patricia King: No. For instance, in the Republic of Ireland there are already different tax laws from those in Northern Ireland. There is a land border. You would see a fair bit of it in the construction industry, where workers cross the border to do similar work alongside those in the Republic of Ireland. They have two different obligations, but the EU directive piece at least conditions it and sets a level playing pitch. One of the reasons those directives were developed over 43 years was to deal with all those issues. From our perspective, you are going into very regressive territory if you start removing what we have fought for and won over 43 years and here we are back again in the same place. There would be a strong push. Even with the minimum wage, whatever way the UK handles it, there is a currency difference between the two. All of that will have an effect. As workers we will be told, “If you want to be competitive, this is how you do it”. These guys love the word “competitive”. They want to close their ears when I say that, but they love it. That is basically what happens. Then the argument comes along, “Well, if you want to keep the jobs, have it at that price”. That is the deal offered to workers.

The Chairman: We will now invite your neighbours to open their mouths rather than close their ears, starting with Pat Ivory from IBEC.

Pat Ivory: Thank you, Chairman. First, I would like to thank you for the opportunity to set out some of the views and concerns of Irish business on an issue that is truly of immense importance. IBEC is Ireland’s largest business organisation and the voice of business on a national, European and international level. We represent indigenous and multinational companies, big and small, and our membership and work span every sector of the economy, so we bring you a particularly full view. Our 7,500 companies employ 1.2 million workers, about 70% of the private sector in Ireland, and we are the umbrella group of Ireland’s main sector trade associations.

The UK vote on 23 June to leave the EU remains a matter of profound regret and ongoing concern. The deeply integrated nature of our two economies, our land border with Northern Ireland and our long-standing historical and cultural ties mean that Ireland and Irish business will be disproportionately affected by any rupture in EU-UK relations. Already the fall in sterling is putting intense strain on Irish exporters and increasing the cost of imported inputs for manufacturers in the UK. IBEC forecasted that would happen if the UK voted to leave the EU, and it is happening very quickly.

Recent comments from the UK Government in advance of the formal exit negotiations are a matter of real concern. A hard Brexit, with restrictive rules on migration, the imposition of tariffs and the resulting disruption to trade flows, investment and the regulatory environment, would be deeply damaging to business and economic interests. For that reason, we feel it is important to Irish business that the UK retains access to the single market on grounds as close as possible to full membership of the EU, while also conscious of the obligations that go with it.

It is also important to Irish business that the UK remains a member of the customs union. In the negotiations, the political settlement in the North needs to be afforded special status, along with continued commitment to the development of an all-Ireland economy. The common travel area between the UK and Ireland must be preserved, in our view, particularly given the integrated nature of our labour markets, which is a key feature of both our economies. It is vital that we sustain and build on the very positive and mutually beneficial relationships we currently enjoy. That is even more important given the challenges ahead.

John McGrane: Good afternoon, Chairman, ladies and gentlemen. Thank you very much for inviting us along. You are most welcome to Dublin, Buswells Hotel and Ireland. You are the perfect example to your countrymen and women that a modest slip in the exchange rate should not put you off travelling to Ireland for pleasure, leisure or business. That is quite a serious point, because it is an example of an immediate effect we are having to grapple with here.

Let me tell you a little bit about the British Irish Chamber of Commerce. We are the organisation that represents the interests of the combined cohort of British and Irish business across the two islands, north, south east and west, working very closely with likeminded organisations but with a particular perspective of the common trade area that is represented by these two islands—that trade accounting for over €60 billion a year in two-way trade and more than 400,000 direct jobs, distributed roughly evenly between the two islands, with many more in the food chain, supply chain and communities around that. We are very much concerned with the fact that our member firms employ more than 2 million people. We were concerned originally to see an outcome that might see a strong UK take a leading position in a reforming and strengthening European Union, but now we absolutely respect the will of the UK people and the outcome of the referendum, and we are pragmatically focused on achieving the least worst outcome for all of us in the resulting steps unfolding before us.

The British Irish Chamber of Commerce is not as old an organisation as you might think. We were founded in the surroundings of the historic visit to Ireland of Her Majesty Queen Elizabeth in 2011. We work very closely with both Governments and all government departments on both sides and their officials, many of whom are now thoroughly occupied on the business of what happens next both in the UK and in Ireland. Working with likeminded and friendly organisations, we have a clear mission to support the work of government and officials in bringing about solutions, rather than shouting or decrying things. We have to be pragmatic, realistic and respectful in that process, and we intend to be.

We are not a political organisation. Our members take a thoroughly pragmatic view about this, and we are now in the business of thinking through realistic solutions, with realism about a border that cannot not exist. We may try for as soft a border as we can, but it is unrealistic to think there is a zone from which a country chooses democratically to exclude itself and not have a dividing line of some sort. It is clearly a contradiction in terms. That dividing line we call a border. For instance, in our pragmatism we do not know of any technology that people might claim is now so advanced that it can tell us the contents of a vehicle without the driver having to declare them in the traditional way. There are a lot of fanciful ideas that nothing much is going to change, the border issue being just one of them—a very important one. We are quite pragmatic about this, and it is our role to highlight issues where we think people are on the wrong track in what they think might be the outcomes, and try to point people towards the right track.

We are now in the business of proposing solutions from a trade point of view. We do not focus on much else beyond pure trading issues, which obviously we do in a politicised environment. We think about trade, and what can hold the volume of trade, and the employment and investment it supports in communities the length and breadth of the two islands. For instance, we do not think just about helping businesses to respond, on the Ireland side, to the deep weakening of sterling versus the euro. For Irish food exporters, tourism and many other key goods and service exports from Ireland, this is a very heavy challenge right now to business owners, employees and communities directly impacted by a roughly 17% price increase in Ireland for our friends buying from us in one form or another in the UK.

We observe that in the UK context you cannot depreciate a currency unilaterally, not least one with a very significant trade deficit with the European Union, without bringing upon yourself significant price increases. Last week, Marmitegate might have been a taste, so to speak, of things to come. The reality is that Nissan last week passed on its first price increase in the UK in some years. Nissan employs about 34,000 people in its conurbation in the Sunderland area, an area which will never see 34,000 jobs again if Nissan decides to move.

Baroness Armstrong of Hill Top: I come from Sunderland. We think it is 35,000.

John McGrane: You know it well. Indeed, there are a few thousand more in the Irish supply chain, with many services and workers involved. Nissan exports four out of five of the very good vehicles it makes in Sunderland, most of them to the EU, and it also imports 40% of the raw materials for those vehicles. It is now faced with a democratic decision that has the effect of raising levies on its exports and incurring tariffs on its imports. It may be diplomatically inappropriate to call this out, but it is rational for business to think in terms of consequences and say, “As a result of what has happened, there is very little incentive for Nissan to invest further”. It has to become extremely competitive just to hold its position. In response to Patricia’s very important point, competitiveness cannot be just about wage costs; it is about having a business that can be adaptable to change of any sort and produce high-grade services and goods for high-value customers, and our members are intent on delivering those categories. That is our opening context, Chairman.

Q109 **The Chairman:** That has been a very comprehensive picture and has covered a lot of ground. My colleagues are fairly familiar with it, and I will put them on free fire in a moment for their particular interests. I confine myself to only one other question. It is self-evident from what you have said about the Irish debate and more widely—maybe it is not—given that we have a Northern Ireland Executive and a UK Government perspective, that these negotiations will take place with another 26. We understand

and appreciate what you have said to us very clearly. Are those messages going home to those who need to have them? Is the contingency work being undertaken, either in-house or outsourced, to deal with it? Is there potential for looking at options to meet the difficulties as they arise in the negotiations? We are getting to the stage where we begin to understand what needs to be done, but how are we going to make sure that those charged with dealing with it, or who have responsibility for it, are able to carry it out to your satisfaction?

Pat Ivory: From an Irish Government perspective, we feel that the Irish Government are probably better prepared than many other member states for dealing with Brexit. There was good engagement with business, the trade unions and different elements of civil society before the referendum, and since then it has been stepped up and intensified. We have observed that there have been preparations in government to deal with the challenge of Brexit, and that has been mirrored in many of our own organisations. We are also stepping up and doing that. From an Irish point of view, we at IBEC believe that Ireland is better prepared than many other member states. Part of the reason for that is that for both ourselves and yourselves it is at the top of our particular agenda, but the further you move away from Ireland and the UK, other items tend to drift to the top of other member states' agendas.

The Chairman: Is it not reasonable to say that they have other things on their mind, for example youth unemployment across the Community, which tend to get overlooked in this?

Pat Ivory: They do. For example, in Spain there have been two general elections and they are still struggling to form a Government. The far eastern part of the European Union is grappling with migration questions arising from Syria, so there are huge items that have drawn the attention of other countries.

Patricia King: We know that the EU has appointed nominees to head up negotiations and so on, but it is important to note that what all three of us have described—I am sure you have heard it in all the contributions during the day—are the complexities and seriousness of all the various issues. I carry out a lot of negotiations; that is what I do for a living. To succeed in a negotiation, you have to be exceptionally clear about what you want; you have to have the authority to be in the room looking for it in the first place, and using somebody to do it on your behalf is not a great place to be in. By that I mean that Ireland is just a member of the EU, which means the interests of the other 26, in this case, will not be the same as Ireland's, but they will have interests. Whether our Taoiseach stands on his head or does whatever he has to do to get someone to notice him is not the issue. The issue is how Ireland will be placed in the order of importance in these negotiations. Ireland's interests may not necessarily be the UK's interests at all.

Northern Ireland is more complex and should be the UK's interest. The politics of that is also important, in that the people of Northern Ireland voted to remain. The person who is First Minister does not agree with that, but there is a constitutional piece under the Good Friday agreement. It is the direct opposite in Scotland. They voted to remain and the First Minister there agrees with that, but she has no constitutional entity to hang her hat on, whereas the people of Northern Ireland have the Good Friday agreement, which says what it says about their having the ability to be Europeans, so there are complexities.

The Irish Government also have a huge interest in ensuring that Northern Ireland is treated well and that, as has been described by my colleagues, all those exigencies are taken on board to make sure that Northern Ireland is allowed to prosper, that the peace is not interrupted, and that nothing regressive happens. The Irish Government and the Republic of Ireland have a massive interest in ensuring that happens. They will be in a particular position because they will be part of the EU. Northern Ireland will also be looked after from the UK, in the sense that it is represented in the UK, but it may not be as focused, so it is a complex negotiation. I do not know whether the European people will give Ireland a special place. I would expect us to advocate, in so far as anybody will listen, that they should, and that Ireland should be at the top of the class in terms of advocating what will be in any agreement, in so far as that can happen. It is too early to say. It is a very big challenge for Ireland to get itself into a space where it can negotiate the best, and my view is that it is nowhere near that yet.

John McGrane: Ireland has to be brilliant at managing two distinct sets of relationships. We have an undiminished commitment to membership of the EU, but we also have a very special relationship with our friends and connections in the UK. We have to be brilliant at managing both those distinct sets of relationships.

It has been reported in some quarters in recent weeks that certain opinion within Britain may see Britain having the ability to hold Ireland as some kind of hostage in its relationship with Europe and in the negotiations. Frankly, we would regard that as a pretty despicable notion, to say the least, but we understand that we are now in a dangerous phase where people may take positions that try to leverage unwisely some of the relationship factors, whereas the right way is to think about what is in our best interests while still respecting the will of the people.

The Chairman: If I may respond on behalf of the Committee, thank you for your frankness in making that point. I think you can take it as self-evident that across the Committee that would not be our intention, nor do I suggest that you implied that it was. It would be helpful to have any indication—I am not asking for names—as to whether this is a theoretical concept or whether you have any evidence, which you might not wish to share with us in detail, that this is being seriously contemplated.

John McGrane: I do not say that it is, but it is in the noisy vacuum that now opens up where these types of ideas can be posited improperly. What is important is leadership on all sides, in public and private sectors, to fill that vacuum quickly and say, "These are our principles and commitments, and we are going to work to find solutions that are appropriate for everybody".

The Chairman: Thank you. Colleagues, I leave this open substantively. You have heard a lot of evidence today. Would you like to distil particular things?

Q110 **Lord Whitty:** Two things, really. First, all the evidence we have had so far indicates that this is a serious threat to economic performance and the well-being of people, employment, profitability and everything else in Ireland, but is there a differential impact across sectors? Is there a chance that any sectors would benefit? You have a very serious and particular problem in the agrifood sector, but there may be other sectors that will be badly hit. Perhaps you could go through a list of them.

My second question is to Patricia on the issue of workers' rights. The British Government have said that they will legislate into British law what currently exists and then review it. If they reviewed it to the degree that, some way down the line, European rights for workers diminished after Brexit, what would be the effect in Ireland of having different workers' rights and different health and safety standards in Northern Ireland as compared with the Republic? Would there be a shift of investment or of employment? There are a lot of ifs in that, but your anxiety is pretty palpable. Obviously, it would affect the whole of the United Kingdom, but you would be within miles of each other; you would have employment in similar factories and offices with different rights. What would be the effect on the Irish economy and Irish employment?

Pat Ivory: Maybe I could comment on the sectoral approach. You can measure the exposure of sectors in two ways. One is the size of their actual exports to the UK and the business they do in the UK. The second is the actual proportionate exposure, which is how much of their own business that trade accounts for. The Department of Finance and the Government's economic analysis unit have done some work on this, and they came up with a composite index methodology that identifies the most exposed sectors on the manufacturing side: pharmaceuticals—pharmichem; food and beverages; traditional manufacturing; materials manufacturing; and electrical equipment. Those five sectors collectively account for 75% of manufacturing gross value added in Ireland and they employ 94,000 people, according to the census of industrial production. The economic importance of those sectors cannot be underestimated. There is one particular distinction in the five sectors. The pharma sector is the largest in turnover terms, but it is also a foreign direct investment-style sector. The other four sectors are basically indigenous and Irish-owned.

Another thing worth pointing out in the manufacturing sector in particular is that although Dublin, the capital, has been the main engine for growth and our recovery, outside Dublin employment is very high in those exposed manufacturing sectors. In the food sector, 80% of employment is outside the Dublin region, so there is a regional aspect. As well as the exposed sectors being on the whole Irish-owned, they employ more people in the regions, which are the areas of Ireland that have found it most challenging to recover from the recent economic downturn, so they are still in a recovery phase.

The Chairman: Some of those would be border regions.

Pat Ivory: Absolutely.

The Chairman: If I may amplify the point, I take it that those sectoral categories, which it is very useful to have, would be supplemented by cases where there was a particularly complex or dedicated supply chain of which an individual business formed part.

Pat Ivory: Yes. To take an example, in the food and drink sector, which is one of the most exposed, in the border counties, farmers are moving back and forward across the border on a daily basis to supply businesses on both sides.

The Chairman: We heard, in simplistic terms, that the pigs go north and the milk goes south for processing.

Pat Ivory: Yes.

The Chairman: That is a pattern all of you recognise.

Pat Ivory: It is definitely a pattern we would recognise.

The Chairman: That is really helpful.

Patricia King: To deal with Lord Whitty's points relating to employment law, first, it is a devolved power in Northern Ireland. It has its own pieces of legislation in relating to it. If, as a result of Brexit, the UK decides to dilute employment law provisions, as I would describe it, in years to come, and the Republic of Ireland continues them, one can expect the continuation of trade in some shape or form between the Republic of Ireland and the UK for some years. At the moment, 16% of the Republic's exports go to the UK. One can only assume that it is not all going to stop. Everybody knows and expects that Ireland will try to find other markets, but that will not happen overnight, so there will be trade between them.

The other important piece is that 40% of those are indigenous Irish companies, which in the main are small to medium-sized industries. The reason I mention that is that they are usually more affected by any change, alteration or otherwise in the labour market. Anything that affects labour costs in some shape or form means that a small or medium-sized industry will be more quickly affected by it than the bigger ones; they have less space to absorb shocks. In effect, that means that if that company wants to continue to trade with the UK—I am talking more about trading with the UK across the water—and that becomes a feature of the labour market in the UK, where they address the cost issues and so on, it will come back to its workforce and say, "The only way we can continue to do this is to start mirroring costs across the water". That starts what we describe here as a race to the bottom—I am sure you have the same term in the UK. That will take off very quickly, because the drive for those companies to stay alive will be, “We want to continue to trade across the water”. I have already heard companies saying publicly on the airwaves that the only way they foresee continuing to trade and continuing to survive is to deal with labour costs. They have already started this.

In Northern Ireland, the devolved powers are there. Clearly, if the Northern Ireland Government decided to dilute, it would have some effect as well. However, believe it or not, the Northern Ireland Government export more to the Republic of Ireland than the other way round, so the dependency is not the same. That would not necessarily be changed. You have cross-border labour movement, in that people live on one side of the border and work on the other, but that would have a different effect. The people going to work would be affected by the rule of law of that particular jurisdiction, so the issue would not be the same.

Pat Ivory: To add to that, about 15 to 20,000 people cross the border every day.

The Chairman: To work.

Pat Ivory: To work, and that is significant. SMEs are very important in the food sector. North-South trade is an important point, but you also need to take on board the amount of Irish trade that goes to the UK as a whole and the amount of UK trade that comes to Ireland. We are a very significant market for UK producers. If you look at the exposure on the food side, 70% of processed food produced in Ireland is exported to the UK. Many of those companies are SMEs while others have manufacturing facilities in both Ireland and the UK. It is a very deep relationship that is not just trade-based; it is based on investment and very deep linkages, and global supply chains. Many of our SMEs supply global supply chains that are either exporting to the UK or transiting product through the UK to other markets. An area that is particularly exposed is transport services. A lot of our transport is through the UK and on to other markets.

John McGrane: To go back to Lord Whitty’s point about who gains along the way, including the point about trade, there is no question of our not trading with each other. We always have and we always will. For as long as Ireland and the UK are less than two hours apart—frequently even less than that—we will be closest neighbours, and for many of us we want to be closest friends. We will always trade, but the question is at what price, and what viability of jobs, investment and sustaining the well-being of communities? What is happening is a subtraction from the well-being of that trade: fewer jobs, less investment and less well-being in communities supported by that.

To take specific cases, almost nothing is made in one place any more—in one country, one town, one community or one jurisdiction. If you are a barber or hairdresser, you are not exactly importing or exporting, but you are cutting the hair of somebody who is, or who is in the supply chain, or the family of somebody who is. Nobody is immune from the effects of this anywhere across the UK, Ireland, the EU, or the globe for that matter. Everything is now comingled. Take the example of the iconic Bentley car—some of you may have that pleasure—the quintessential English vehicle. It starts life in Bratislava, believe it or not, where the chassis is made. It is fitted with a German engine by Volkswagen; I believe it is emission-compliant. It is then transported to Crewe, or somewhere, to be prepared in finality, to which is added chrome trim made in Ireland. It is then placed in a showroom and sold to people who take long-term finance on that vehicle, which finance is assembled in Dublin's International Financial Services Centre. Nothing is made in one place any more, food not least. The world's biggest food ingredients company is Irish—Kerry Group. When you buy a Jacob's biscuit, a Jaffa cake or a McVitie shortbread, it contains ingredients made in Ireland, processed in Britain, put into a pack, put on to a truck and brought back and sold in a restaurant, café or works canteen in Ireland the following day or week. Everything is two-way these days. All that is at issue here is what barriers are we going to place in the way of that? Beef coming into the EU from outside faces tariffs upwards of 60%; for dairy it is upwards of 30%; for vegetables it is upwards of 15%. All that gets done by creating this change is subtracting value from the process. When you subtract value, you subtract investment activity and you subtract jobs and employment in those communities.

Lord Whitty asked whether there were specific places that might gain. Yes, there are. The reason why Ireland is home to nine out of 10 of the world's top pharmaceutical, internet and medical devices companies is not that Irish people buy all their output; we are a gateway economy and a gateway community to a 500 million-person market across the European Union today. Those companies like what we do here. Many of their British counterparts, which have major operations in the UK, now need to think about how to secure their access to that market. Pragmatically, they will think first of the place that is closest in language, custom, law, access and pro-business ethos. That is already happening in technology; it is happening, interestingly, in university research funding. Significant EU funding of research—well over €1 billion a year—is now being jeopardised in the UK. What we talk about in the British Irish Chamber of Commerce for our members is how we can be an instrument of joint thinking that can support UK universities, but partner with Irish universities for the research contracts that the EU funds, and for the clusters of innovative SME enterprises that spring up around those colleges and research centres.

There are areas where there will be growth here, and we need every single one of them to take care of the offsets that are coming on the negative side from the adverse effects on things such as our food, tourism and other industries.

The Chairman: Thank you very much for clarifying that. If you are agreeable, perhaps we could have another 10 minutes max. We have a question from Baroness Browning. By way of a trailer, if you have any afterthoughts, I invite you to give them before you close.

Q111 **Baroness Browning:** May I be a bit naughty? This is not a question I have asked anybody in the past two days, but it seems to me that, when the British Government begin their negotiations for real with the EU, none of us knows what the deal will be, what the package will be, at the end of the day. The language being used at the moment about what is being looked for and what the position might be is somewhat speculative. Nobody is going to declare their hand from the beginning. Suppose, as we get towards the final stages of these negotiations, that the UK remains part of the customs union, which is a possibility. It will have to barter other things in return for that, some of which may not be easy. Suppose that as part of the whole package the customs union remains. After that, what would worry you most?

Pat Ivory: Remaining part of the customs union would deal with the tariff issue.

The Chairman: The one John has just been speaking about.

Pat Ivory: Yes, but the tariff issue is only a small part of the barriers to trade these days. In a modern free trade agreement, a huge amount of the emphasis today is on regulatory co-operation. Remaining part of the customs union does not deal with all those regulatory issues. If you are part of the single market, you are applying the same regulations and standards. There are still huge challenges. Many of the trade barriers that could arise could be in that regulatory space.

Going back to the point about SMEs, they have a much greater challenge in dealing with regulatory differences on labelling and the way a product is produced and so on than large corporations. That hits SMEs much harder than multinational corporations. Regulatory co-operation, standards, and being able to trade would be key things.

There is then the whole question of services. We have not spoken very much about the services industry. The single market is being developed in the direction of services. In financial services, passporting is a particular issue under discussion, and a threat from the UK point of view. As we have already outlined, if financial services companies, pharmaceutical companies or research companies are exiting the UK and looking for somewhere within the European Union to base themselves, we hope they will consider Ireland because of our common language, common legal system, our way of doing business, our proven track record and the skills we have in this country. Both on the services side and the goods side, remaining part of the customs union does not cover all the particular issues.

Baroness Browning: I was not suggesting it would, but at the moment the mood music is that we would not; if you were able to bank that, the question is where you go next. You are saying it would be regulation.

John McGrane: You are right, Baroness. Your point in the first question was, what else, what is next? What else is people; global businesses need global people and global talent. One of the hallmarks of Ireland's success in the modern era has been our openness not just to trade but to migration, allowing the best people in the world to flow in and out of this country, to ply their trade and make their lives as well as their living. It stands to the credit of our creative industries, but also of technology, which is a highly internationalised business. I do not know how long your visit will last—bringing your sterling earnings to Dublin—but we encourage you to visit "Googleland", which is a burgeoning quarter of this great city, filled with the world's greatest technology companies. They are typically one-third to one-half international people, not born here, but making their lives as well as their living here, bringing their families here and enriching our lives and our culture as they do that, and that is critical to the business models of those industries. If you go to Googleland, just look across the river to the International Financial Services Centre. Finance is an innately internationalised business; it requires talented people from all over the world, and the idea that the bargain might be struck on just one side of the ledger without also dealing critically with the issue of enabling the right people to move in and out of the right roles is critically important. We hugely respect that that has been a major issue for the UK people. We encourage people to see the difference between non-EU migratory issues and in-EU migratory issues; fairness of conditions for people; and adequacy of supply of talent for the work to be done at all levels of society, but critically including the ones I have mentioned.

Patricia King: Lest you get the wrong impression, I would not be too inclined to overdo the description of Ireland as "Googleland". You might be able to describe it in some other way, but not necessarily entirely like that. Those things are all part of the fabric that makes up the Irish economy. The Republic of Ireland intends to remain in the EU, so some of the stability posts will remain, from the point of view of funding arrangements, support and so on. While there has been recovery in the Republic of Ireland in recent years, there are parts of the Republic that have not experienced the same levels of recovery in unemployment.

On the customs union, that question deals with one aspect, which is the trade piece. To me, even if you have that trade pillar in place, you will still have all the other things I dealt with, such as employment legislation. All of that will be a feature and will have to be dealt with. In my judgment, there will be differences in the way the two countries trade with each other, whether it is customs union or whatever else. Some of those competitive pressures will come along.

From the Northern Ireland point of view, Northern Ireland is the most depressed region in the UK. It has the highest levels of deprivation, unemployment and poverty. As you know, 26% of its exports are food and live animals, so agriculture plays a big part. It depends on CAP funding. Who is going to pay that? It received €205 million from the EU under the ESF for skills training. It has a manufacturing industry that is declining every day, and the only thing that will resurrect it is to reskill people and get them into a place that will attract further investment.

There are certain parts of the infrastructure of Northern Ireland that require a lot of work, whether roads blown up during the Troubles or just lack of money in the local authority sector. There are lots of infrastructure pieces, not just the roads network; I mentioned that as one of them. Again, the EU has supplied a considerable amount of money to boost the chances of the peace process taking hold and normal societal activity continuing. Through Interreg, €283 million has been pumped in to build investment pieces across the region. If you take the EU contribution out of that, Northern Ireland is at major risk unless somebody in the UK says, "We will match every euro they put in". I do not hear anybody saying that is going to happen. Unfortunately, because of the politics and the different stances people are taking, it is not entirely audible at this moment that anybody is going to fight for it. That is what needs to happen for Northern Ireland even to continue to have a chance economically of improving its lot; otherwise, we are looking at huge job loss and bigger deprivation levels. The UK needs to get it. It needs to understand that, when you take all the politics out, human beings in Northern Ireland need a lot of effort put in to ensure that all that is sustained. That is a big key risk in Northern Ireland. In fairness to the Republic of Ireland, if we remain in the EU we will have all the trade and other issues we talked about, but Northern Ireland has unique difficulties and the UK needs to get its head around how to address them.

The Chairman: On which note, having dangled the possibility of further comment, I think we will draw to a close, if you do not mind.

Pat Ivory: Can I make just one small point?

The Chairman: If it can be one sentence, I am more than happy to take it.

Pat Ivory: In relation to the process, the one thing businesses here in Ireland, in Northern Ireland, in the UK and across the European Union need is certainty. The longer the negotiation process goes on, the more uncertain the position and the harder the position on a Brexit, the further that period of uncertainty extends. That is bad for businesses right across the UK, Ireland and the European Union. If the negotiations continue to go down a hard Brexit line, we could be looking at a very extended period of negotiation and uncertainty for business, which is not good for anybody's growth creation, job creation and any of our economies.

The Chairman: To conclude this session, I thank our three witnesses very much. You have illuminated and expressed fears and concerns across a wide range, which is really helpful. Our interest in this subject will not cease on the publication of our initial report. We are all conscious that this is a continuing issue that will have to be watched very carefully through the negotiations. I hope you will feel we have established at least a line of communication such that, if at any stage you want to communicate with us, we would like to hear from you, and work on that basis. Meanwhile we will reflect very carefully on what you have said. It has been extremely helpful. This formal session closes.