HOUSE OF LORDS

# Select Committee on the European Union

## Corrected oral evidence: Brexit: UK-Irish relations—follow-up

Tuesday 30 January 2018

9.15 am

Watch the meeting

Members present: Lord Jay of Ewelme (The Chairman); Baroness Armstrong of Hill Top; Baroness Brown of Cambridge; Earl of Kinnoull; Lord Selkirk of Douglas; Baroness Suttie; Lord Whitty; Baroness Wilcox.

Evidence Session No. 4 Heard in Public Questions 24 - 32

### Witnesses

I: Eoin O'Neill, President, British Irish Chamber of Commerce; Danny McCoy, CEO, Ibec; Aidan Flynn, General Manager, FTA Ireland.

# Examination of witnesses

Eoin O’Neill, Danny McCoy and Aidan Flynn.

Q24 **The Chairman:** Welcome. Thank you very much for sparing the time to talk to us today. The first report by the Lords EU Committee after the referendum was on the implications of Brexit for Ireland, because it has always seemed to us that this is one of the most important and most neglected areas of the Brexit negotiations. We are here to conduct a follow-up report looking at what we discussed last time round. We are extremely grateful to you all for coming to talk to us, not least because it seems to us that the implications of Brexit for Ireland are not so much government implications but implications for businesses on both sides of the Irish Sea and between north and south. It is in that context that we are very grateful indeed to have you here. Would you like to say anything to start with or shall we move on to a series of questions, which I know a number of us are eager to ask you?

***Eoin O’Neill:*** Fire away with your questions.

**The Chairman:** It is really an opportunity for you to give us your thoughts. What are your principal concerns about the impact of Brexit on Irish industry, Irish businesses and the Irish economy in general? The first bit is about your concerns and the second is whether you see any opportunities arising from this and, if so, what they might be. We do not want to focus just on the difficulties but on whether there are some opportunities that you see. Who would like to start?

***Danny McCoy:*** I am the CEO of Ibec, which I suppose is our equivalent of the CBI. We represent a very broad church of foreign direct investment concerns and large Irish businesses. The main backdrop to this is that the Irish economy is in a very strong place right now, but the momentum in the economy may be masking, for some sectors, the perceived and real difficulties that Brexit has introduced with both uncertainty and exchange rate movements. Any fast-moving, low-margin goods will already be experiencing difficulties in the UK market because it is the most dominant market for a significant amount of our food. In terms of supply chain and retail, it is already being experienced on the ground. However, it is being masked by the sheer volume of growth that is occurring in the economy right now. Ireland is experiencing generational-defying growth which is the result of the OECD work on corporate taxation, which has been a complete game-changer in the last five years—a trend that Britain was also a beneficiary of in the initial phases prior to Brexit.

On the point about opportunities, Ireland has seen a cascade of investment that might have gone to the UK. I am talking about some of the very major corporations—for example Medtronic, as well as aircraft leasing companies—which are moving substance to Ireland to follow their tax strategy. That was most evident in the year 2015, when the corporate balance sheet in Ireland increased by 40% in a single year—some €350 billion of assets—giving rise to a flow of income from that of around €60 billion, which in turn gave rise to our GDP increasing by 34%

in a single year. Normal economies do not grow by 34%, but resource economies do. This is the modern equivalent of an oil find. In that oil find, intellectual property and intangible assets are the frontier economy for this new phenomenon which is evocatively called "capitalism without capital", where, increasingly, large corporations do not have physical assets but just their intellectual property and so on.

In turn, that has given rise to a doubling of the corporate tax revenue in Ireland inside the last three years, from a €4 billion run rate to €8 billion. That is the backdrop to the economy as you come to reflect on the Brexit issues. It has been masked in the context of a surge in growth, an increasing population, and, I think more starkly since Brexit started to unfurl, the very stark difference between Irish households and British households. Our businesses will observe that because they trade into those British households. Disposable income in Irish households is rising at over 5% at the moment, on top of an income level that is higher than the average in the UK. We can see that real disposable income in the UK is declining, with inflation outpacing it.

On that basis, for companies exposed to the British market we are seeing both a price effect through the exchange rate movement and a volume effect, because British households are consuming less now. That double whammy is already evident. Some of my colleagues here and some of the people you meet afterwards will be able to give testimony to that kind of trend. The immediate impacts have been negative.

On your last point as to whether there are opportunities, yes, there are, but they are really loss mitigators. The totality here is a negative-sum game. There is no upside for Ireland in Britain leaving the European Union. Anything that is a positive is marginal in the context of where we find ourselves because, as you reflect on this—and we have done so a lot—mental gymnastics are required to go through all the different shapes and permutations.

Finally, because we are quite significantly service based as opposed to goods—my colleagues can give some examples of physically getting things off Ireland—when you are dealing through aeroplanes and the internet, the land bridge is not an issue. A significant amount of the real value added in the Irish economy is not land blocked, either by the physical movement of people getting to those markets or through the services. You need to put that in context as well. This is not just a primary goods/products-moving, agrarian-based society any more. It is quite transformed.

**The Chairman:** That last point is an important one.

***Aidan Flynn:*** Good morning and thank you for the opportunity. I am from the Freight Transport Association of Ireland. I am delighted to be invited here today. We represent multinationals in the transport and logistics sphere, general haulage operators, passenger and van fleet operators and so on. We have around 10,000 commercial vehicles within our membership. We are very much aligned to the FTA in the UK. James

Hookham, our deputy CEO, presented in front of you last week. The transport and logistics sector operating on the island of Ireland has concerns. Our starting point is that there is no net gain ultimately because we are heavily reliant on the UK as a market—not just direct trade between the two countries but in terms of accessibility to mainland Europe. There is just shy of 30 ferries between Dublin and Holyhead and Liverpool every day. We have major concerns within our membership about the administrative burdens, delays and so on which will come with divergence.

We have all got used to the quick and efficient movement of goods, particularly over the last 25 years, through ease of access to markets. We have a lot of members who deal directly from an island of Ireland perspective. They have people living in Northern Ireland, for instance, and working in the Republic of Ireland and vice versa. Some of our members have 30 to 40 movements a day over and back across the border. We have members who go back and forth to the UK and those who go through the UK to get to Europe. The supply chain is complex. I suppose what Brexit is doing from a positive perspective is focusing on the transport and logistics sector. Never has there been so much focus, which associations such as ours welcome, because within our own association we are trying to develop a compliant and professional industry.

There is a lot of commonality in the struggles and issues that the UK and Irish transport and logistics sectors have—for instance, skills shortages and so on; it is not just HGV drivers but across the supply chain. Brexit is getting us to link the supply chain together and get people talking, which has to be a positive, but, ultimately, it does not take away from the fact there are serious issues of concern. Certain sectors would be much more reliant and dependent—the agri-food sector, for instance—and removal from the customs union and single market is a serious concern for them. From a business perspective we need to understand what the solution will be for action to be taken. There is a reluctance to take action because there is an associated cost. Cash is king in terms of transport distribution and margins are tight. When we talk about trying to have contingencies and so on, we know from a recent survey of our members that 40% of them have taken zero action. That action is only talking to their customers or client bases.

**The Chairman:** Forty per cent have taken zero action.

***Aidan Flynn:*** Forty per cent. That was 77% last July, so there is a significant movement, but there is still a great reluctance to make any investment in the future because you do not know what you are investing in.

**The Chairman:** Thank you very much for that. Mr O’Neill.

***Eoin O’Neill:*** Good morning. I am president of the British Irish Chamber of Commerce. Our organisation was founded in 2011 on the back of Her Majesty’s visit to Dublin. We did not have a chamber of commerce between the two islands up to that point in time. Our raison d'être is to support trade between the two islands, which accounts for over €1 billion a week in transactional elements in goods and services and over 400,000 jobs split between the two islands.

I would concur with a lot of the comments that have already been made, particularly Danny's comments about the Irish economy. It is an economy that has seen solid, rapid growth over the last four years, but not just in the old, traditional areas of food and agri; it is very much in new-age technology and services. It is in export-led environments that are not dependent on the mail boat to Holyhead any more but very much dependent on modern methodologies.

From our members' perspectives, there are a couple of things that I want to mention about what we see on the ground day to day. We have seen a step change in people now looking to take action in relation to Brexit, but it is still not where it needs to be in the context of the eventual impacts. Aidan talked about the shift in the stats, but many businesses have not started doing things in relation to that. The reason for that is that in many respects the political, regulatory and commercial movements are not aligned. People's expectations and understanding of what needs to happen over the next months are not aligned in terms of timescale. That is a challenge for business because business needs to plan. For example, the lack of a detailed transition arrangement is a big issue for business because it needs to plan into that timeline. If it does not have a timeline to plan into, it will plan to the worst-case scenario, and that is what we are starting to see.

That is irrespective of whether it is Irish-based or UK-based businesses. I was in the UK last week with three businesses in the City which were all starting to execute their Brexit plans. They were not doing that until December; they were talking and listening. They now want to know what the regulatory environment will be post Brexit, where their businesses will need to reside and be domiciled post Brexit and whether a financial services deal will be part of this. They do not know any of that yet. They will now have to execute a plan accordingly, and that is very much what we are starting to see.

**The Chairman:** But the impression you have is that they are now executing a plan.

***Eoin O'Neill:*** Correct. I would say that there is a step change from talking to now looking to do. What they will do is still a challenge. Do they make a significant investment and move their opportunity or change their bases; or do they make contingent investment in relation to what they are trying to do? That is a significant issue.

Finally, I want to talk about opportunity. The opportunity here is to try to make sure that we have a nil-sum game, in many respects, and that we do not suffer impacts. Every commentator has said that it is hard to see an upside overall, collectively, from this experience. We are focused on making sure that we do not see a significant downside. All our organisations are very focused on that at this point, and the challenge for us against the political and regulatory backdrop that we all operate within is to try to plan accordingly.

Q25 **Baroness Suttie:** I think you have already touched on where I want to go with the next question, which is to understand a little more about how the process of cross-border operations and movement of goods takes place. What is the volume of such operations? What are the logistics involved and therefore, what challenges do you face with Brexit?

***Aidan Flynn:*** On the island of Ireland there are about 30 million vehicle crossings on the main cross-border routes between Northern Ireland and the Republic each year. There are 2 million HGV crossings and 2.6 million light goods vehicle crossings, which is approximately 12,000 vehicles a day. There are 11 national routes. There are over 300 miles of border, with 275 crossing points. Post Brexit it will be the only land border between the UK and the EU. The common travel area helps with the movement of people but not goods. As I mentioned earlier, some of our members are multinationals and would be taking goods in through Dublin and delivering up to the north by way of efficiencies for their businesses. They have depots up in Northern Ireland as well as in the south, and people cross over and back seamlessly—that is amazing—since the Good Friday agreement and all that. It is a seamless border. There is integration across healthcare services as well as everything else, but in terms of trade it is painless.

***Eoin O'Neill:*** I will give you a practical example of that. You will all be aware that the care of sick people in all countries is at the root of what society needs to look after. In the regional areas of Ireland we have cancer centres of excellence, but you cannot put a cancer centre of excellence in every region because the volume does not justify it. It is the same issue in Northern Ireland. Altnagelvin Hospital in Derry is now a major cancer centre. Neither jurisdiction would be able to justify the investment, but the Irish Government, the Northern Ireland Executive and the UK Government have come together to create a cancer centre of excellence. Some 30% of the cancer treatment is for people coming from Donegal and the border region south of the border, and the Irish Government support that.

People have got used to a seamless transaction over and across the border. It is exactly the same in goods and services. They do not see a border any more; they see an ability to trade and to do business. Diageo, for example, produces all its brewing in the south of Ireland, but all its canning is done in east Belfast. The vast bulk of their transportation is done through Holyhead and into the UK. If you think about the transactional movement of beer going up, being canned and coming back down and then being exported to the UK, it is seamless. That is the way people have learned to live since the Good Friday agreement. It is just an assumed way and they are not willing to go back.

***Danny McCoy:*** The other thing to say about the common travel area is that it is very important for Irish people, but one of the features of the enlargement of the European Union, with both Britain and Ireland having opened up, is that disproportionately more people came to Ireland than came to Britain. At this point in our labour market, if you exclude British citizens, it is probably one in six. Nearly 20% of the Irish workforce right now is not Irish but a significant proportion of that is British. I would say that about one in six of the workforce will not be covered by the common travel area. They will not have British or Irish citizenship. That is an issue for people in the future as well. I could not be precise on that figure but it is of that order of magnitude.

**Baroness Suttie:** Is that predominantly from central and eastern Europe?

***Danny McCoy:*** Poland and Lithuania would be the most significant populations. British is by far the biggest other nationality within Ireland and then Polish would be the next.

Q26 **The Earl of Kinnoull:** Peeling back another layer of the same onion, what is the likely impact of the UK leaving the single market and the customs union on cross-border movement of goods between Ireland and the UK, both east-west and north-south? Have you had any good thoughts as to how mitigation might take place there?

***Eoin O'Neill:*** I was in Brussels last December when phase 1 of the agreement was signed up to, and there was a lot of hope that what was being proposed at that stage would not see the reintroduction of a border and would potentially see openness between the UK and Ireland, east-west as well as north-south. The general feeling was that that is what was agreed. The challenge is that you come back from that and immediately, the discussion is how you have an interface on the border again. From our perspective, it is very hard to see how a logistical border is in keeping with the commitment to keep all elements of the Good Friday agreement. There is no real way of doing that. The Irish Government will say, for example, that there is a digital solution and people talk about it as being an opportunity to fix it. A digital solution would need minding. If you have to start to mind something, it becomes a target and then a manifestation of something else. Whether it is a camera on a pole, a man minding a camera on a pole or a battalion having to mind a man, there is a challenge.

**The Earl of Kinnoull:** At the moment you have a spy in the cab of a lorry which is busy telling you how many hours the fellow is driving the lorry. Is it not possible to foresee an upgraded version of that which will give you a lot more information?

***Eoin O'Neill:*** I might hand that to Aidan, who will definitely know more about cameras in lorries, but a spy in the cab of a lorry does not look in the back of the lorry.

***Aidan Flynn:*** Exactly. The other thing of note is that the UK leaving the customs union and the single market could automatically double overnight Ireland's engagement with third countries in terms of the amount of trade we do. There is some €23 billion to €25 billion over and back in goods between Ireland and the UK. Our traditional engagement with third countries at the moment would be much more in bulk, rather than the type of consignments that are going over and back between the UK and Ireland and up and down from Northern Ireland to the south, where you have mixed loads. You could have 20 to 30 different types of product on the back of a container, truck or lorry. As Eoin mentioned, absolutely we are in the technology age and we are all looking for autonomous vehicles and that type of thing, but in dealing with the actual goods themselves, there will have to be physical checks. It is very hard to see any other way.

**The Earl of Kinnoull:** I come from the insurance industry. Cargo policies are on a declaration basis: i.e., you tell your insurer what you are shipping, and if you are shipping exclusives, the adjustable rate is different from that for shipping bars of iron. Surely you are collecting data for the insurers. Are we not able to uprate that?

***Aidan Flynn:*** It is a hot topic. I worked in insurance for 10 years. We were always looking at solutions to improve efficiencies. You are right, but insurance products such as carrier's liability are done on an annual basis where you are looking at a generalisation of the product. Regarding international trade, you have to have minimum levels of indemnity. It is different for national distribution and so on. I have not considered it and neither have our members. That insurance is there for damaged products in the event of something happening on the road—an overturned vehicle or whatever.

Regarding ease of access and dealing with the single market/customs union issue, first, the customs union is about tariffs and, secondly, the free movement of goods and the single market is about regulatory alignment. That will also cause more problems for our industry, particularly around licensing. Mutual recognition is a problem. Currently, what is known as an ECMT licence is required to deal with third countries and that is on a quota basis. Effectively, you apply once a year to the Department of Transport, Tourism and Sport in Loughrea and there is a quota of licences which would cover between 3% and 5% of our needs. It would be the same with the UK. That is done on a first come, first served basis. There are a lot of complexities around that licensing regime. Higher quotas could be introduced to suit the UK and Ireland, for instance, which would need them. Those are issues of concern.

On accessibility, we could talk about signing up to a bilateral agreement under the Common Transit Convention—to use the land bridge, for instance. The biggest problem for us concerns engagement. For instance, 50% of our post comes from the UK and it is a question of handling that. There are certain levels of value of product that could be kept out of the loop if limits were raised, but it does not deal with the day-to-day trading issues.

***Danny McCoy:*** Approved economic operators is another aspect of that, if we do not have physical sea borders. There is a shifting of the cost burden to business if we make the borders effectively inside the business. That is unquantified at this stage and there are no solutions. Going back to the question of why business is not prepared, this is the equivalent of the staff room telling the students to go away and study without providing any curriculum. What is on the exam? What should we be preparing for?

To Eoin’s point earlier on, businesses will not tie up their capital on ifs and maybes. There is a lot of working capital required for lots of real things today. As I said at the start, there is real pressure in the Irish economy for wage increases and for housing. There is a whole lot of resources for identifiable needs as opposed to what at this point is “hit and hope” that there might be a technological solution.

Q27 **Lord Whitty:** Can I press you on the question of the land bridge? What is the balance of exported goods that go to the UK as such and the goods in transit to the rest of the EU? Does that double the costs in the absence of a customs union?

***Aidan Flynn:*** It is hard to put a figure on it. The land bridge appeals to the Irish transport sector because of time efficiencies. Effectively, you can get to Holland or Belgium within 18 hours of leaving Dublin. To go direct from Dublin to Zeebrugge, for instance, is about 38 hours. The other issue is you have to go through two ports. You are looking, again, at solutions that would not impede that progress.

A year and a half to two years ago we would have sat around the table with the Department for Transport. The UK Border Force was doing a consultation on its civil penalty regime which we were delighted to participate in. Effectively, it was dealing with the migrant issue and Dover-Calais in terms of security. There are only 19 Irish international hauliers registered under that voluntary regime. We invited the UK Border Force to present at our annual transport managers’ seminar a couple of years ago to highlight the benefits of participating in these regimes. It is certainly core to the principles of what we are trying to achieve here internally regarding standards and compliance and so on. A lot of our members would have significant concerns about that type of thing ramping up in terms of engagement with the UK Border Force, added delays and that sort of divergence, without necessarily knowing what those divergences were into the future. Those are the things that people are talking to us about.

Obviously, it is about having your working time and driver hours issues right and having your documentation right. From time to time there might be a mistake or whatever else, but it is a seamless process at the moment.

***Eoin O’Neill:*** Just to make the point, the UK Treasury has warned that every hour of customs delay leads to 5% less trade potentially. The tariff charge and the physical infrastructure of the build-around will have a direct impact on trade. On Danny’s point earlier, trade will be expected to pick that up against a backdrop of counterdemands for other investment.

***Danny McCoy:*** I think the Anna Karenina principle applies here: all happy families are happy in the same way and all unhappy families are unhappy in an idiosyncratic way. All businesses are not the same. One main prism through which to look at where the pain comes is around margin. Those with low margins are already in pain. The classic example that is given in Ireland is the mushroom industry, which has a different margin on the product. As you start to move up the dial—a bit like the old snooker ball scoring scale—as you move through the margin, the pain starts to rise. Fast-moving consumer goods with low margins which are often traded in freight are absolutely at the extreme of what we are talking about today. If you move a little outside that to insurance or financial services, where margins are higher, or to biopharma and medtech, the margins will absorb any kind of friction. What become significant issues are non-tariff regulations, regulatory alignment, licensing and passporting, et cetera. It is very hard to have a singular business view. It will depend fundamentally on the margins, which is probably the easiest and most succinct way to look at it. If we can find out what the margin of the business is, we will know how much squealing will occur on any given issue.

Q28 **Baroness Wilcox:** Thank you very much. It has been an absolute pleasure to come, if only for this quarter of an hour, but I sit here and I cannot quite work out what is going on. I have heard a terrible story and it is really worrying, about the lorries, et cetera. I have been in business where we have been shipping stuff back and forwards and I can see how difficult that is. I listen to you and there is this golden time happening for all the people down your end and the European Community. They will all earn a load more money and are having a wonderful time. I am not quite getting the messages between all three of you. It seems to me that you are more balanced and I hear that more. You will have to re-organise the way things are run, and I can see that very well. On this sort of golden bit of the European Community doing wonderful things for people, I cannot quite gather whether everybody is happy and it is fine and there is no worry or confusion about what they are going to have to do with Britain. I would like to hear a bit more about that, if that is possible.

***Danny McCoy:*** Sure. As I said at the start, the distinct game-changers for Ireland are both EU membership and the way globalisation has developed, even in the last decade. What is driving the Irish economy right now is not connected to Brexit. The forces of globalisation have been pulling through significant resources into the Irish economy to produce the type of growth rates we are talking about. If that was aligned with Britain, it would be a spillover effect for both countries.

If you want to take an example of the phenomenon, even in the last five years, one of the biggest US companies—Pfizer through the AstraZeneca deal—attempted to become European by first becoming British. In 2016, it attempted to become European again by becoming Irish. In both cases that company did not succeed, but lots of companies have. Those are the forces driving the Irish economy to where it is today.

I said at the start that the economy is in a really strong position. Brexit and its manifestations are throwing up significant problems, but it depends upon the nature of the business. For those with low margins, who are exposed to the exchange rate and dependent on the British market, which is a significant part of the Irish indigenous market, Brexit is a real issue. For lots of others, the immediate effects of Brexit are not impacting at all. However, depending on the nature of the final outcome, non-tariff regulatory alignment or divergence may have quite significant issues for biopharma, medtech, aviation, insurance and financial services. Those sectors are not exposed today. Right now, the economy is doing pretty well here in Ireland. There are certain sectors that can see the problems emerging. Anything that is physical around the land border—what Aidan’s members are doing—is already having to deal with that uncertainty on very tight margins. It is the margins again.

***Eoin O’Neill:*** To pick up on that, the requirement for balance is very important but, as Danny has mentioned, Brexit has not happened yet and this economy is moving at a sustained pace with a lot of growth. That is not the case across the UK. There is quite a disparity and regional differentiation in relation to the UK. If you go to London, it is more dynamic. The Scottish Parliament’s Brexit committee was here last week and they were quite concerned about the impact on Scotland. They were also talking about the need for a labour supply into the future as a key concern in that market.

Different issues are emerging as you move across different elements of the island. On this island we are obsessed with the border because we come from a generation when that was not a good place, and we do not want to go back to that place. We are passionate about that on this island. You will not meet an Irish person who is not passionate about that and who does not know what it would mean if it were not to be like that. We are in a good place at the moment, having come through a difficult period in our time, but we could be in a better place if the UK and Ireland were moving collectively together against that backdrop. That is not the case as we go forward.

Finally, to square this one off, we would not be agnostic to the issue that Europe needs reform. In the context of the UK leaving Europe, the European reform agenda has lost one of its big advocates for that reform.

**Baroness Wilcox:** The common agricultural policy has to be dismantled.

***Eoin O’Neill:*** Many aspects of European reform are needed. Ireland and the UK working together is a powerful influence. Ireland is now in a situation where it is building new alliances into Europe. That is a very important element. We are committed Europeans and will remain committed Europeans and that is the future. We are in a game-changing environment against the backdrop of a lot of uncertainty, and we are making the best of it. That is what we are about.

Q29 **Baroness Brown of Cambridge:** I would like to take you back to the border and technology-based solutions. We have heard in our evidence a lot of assurances that no physical border means just that: no cameras, no passports and things like that. I have heard a bit of scepticism from you about doing all the paperwork away from the border—Lord Kinnoull mentioned the digital approach—and perhaps there could be exemptions for small local traders, the trusted trader schemes and that kind of thing. I would like to hear a bit more about why you are sceptical.

Picking up on the point that the UK and Ireland are not working together, the UK Government have made suggestions in their August 2017 position paper. Are the Irish Government working on the potential for the same kind of thing? Presumably, we will need complementary arrangements for the border and they will both need to move forward together. A follow-up to that is, if we come to some agreement, what timescale will companies need to implement that?

***Aidan Flynn:*** I suppose what the Irish Government are doing is a question for them in relation to these items. We have looked at the trusted trader element and the authorised economic operator principle. Bear in mind that there are only 130 AEO-registered companies in Ireland at the moment. Not an awful lot of companies in Ireland deal with third countries, which you need to do to become an AEO. There has not been any regulatory shift or guidance from Government to make us say, "Let's go out and get AEO registered". Where we are coming from, irrespective of Brexit, is looking at efficiencies that are worth doing to improve the supply chain.

Coming back to Danny's point, we know for a fact that companies tend not to do things in this jurisdiction until they have to or unless there is a viable business case for it, because of those tight margins. There is a lead-in time. Again, this is where certainty over what the future will look like is quite important in terms of what is agreed because, obviously, if the UK leaves the single market and the customs union it will not be called AEO.

What will it be called and what will it look like? We talk about simplifications on the haulage side that would be linked in. To have a pure trusted trader scheme you have to have elements of the supply chain linked in together. We are moving towards self-declaration for our fleets in this country with the Road Safety Authority. You cannot get your vehicle roadworthy tested now unless you self-declare. That includes trailers, tractor units, rigids and so on. There are systems available to be linked in to for those things to happen, but they are not happening and they have not happened in the past. We would be advocates of standards. We have our own Trucksafe programme whereby all our HGV members have to undergo an annual compliance audit. We would be automatically logging and getting compliance data for drivers, vehicles and so on. We would have lots of ideas in relation to linking in with an AEO-type system.

On the timeframe, how long is a piece of string? It is very difficult when you are looking at a complex situation with so many different and diverse types of business trying to communicate effectively together within a short space of time. There will be massive complications. There needs to be time, if that type of thing is introduced, to allow it to be effective.

**Baroness Brown of Cambridge:** Can I press you on the length of time?

***Aidan Flynn:*** I could not say. Bear in mind, when we talk about transition, that word in itself means that we are working towards something. It is not a negotiation to get there. It is very difficult to put that timeline in place, because, again, it is about mutual recognition of systems. You can develop the best IT systems, and the lads are all involved in IT projects and everything else.

***Danny McCoy:*** That is a good point. There is an assumption that the world has stopped while everybody waits for some kind of Brexit solution. The reality is that all businesses in Ireland today are obsessed with meeting this general data protection requirement on 25 May for all our systems and personal data. This is what is on the boardroom tables. People are tired of Brexit; there is only so much they can take of being on alert for Brexit and crying wolf. Then to be asked to invest in technical solutions that are uncalibrated, is, frankly, a nonsense. I do not know the Irish Government's position today, but I know that they decided that they would not look at technical solutions and have withdrawn from looking at them. In my view, that was the correct strategy, particularly coming up to the first phase of transition. I do not know if that will change as we move closer to a deadline, but it certainly concentrated minds. The expression is, "You broke it; you fix it".

***Eoin O'Neill:*** Just to support that, if you take financial services, a number of the businesses I spoke to in the City last week were obsessed with MiFID up to three or four weeks ago. They were getting their MiFID programmes up and running. They have now moved their agenda on to the next hot topic, which is GDPR—or is it Brexit? Again, to support Danny, Ireland is not leaving the EU; the UK is leaving the EU. The Irish Government stand ready as part of the European Union to come up with solutions, but not individually to come up with solutions.

**The Chairman:** I think what bothers some of us is, irrespective of who is to blame for the situation we are in, if the implication is that there will be problems along the border in particular, that will affect both sides. Trying to work out what the implications will be affects us all, does it not?

***Eoin O'Neill:*** The commitment has been made by the UK Government that there will be no border, and it was made again in Brussels in December. The commitment made on the Ulster political front is that there will be no east-west border between the UK and the island of Ireland, so the border will not run down the middle of the Irish Sea either. Again to Danny's point, where do we make the investment in relation to planning against that backdrop?

**The Earl of Kinnoull:** That might be the UK's commitment but it is not all powerful. If the EU says, "Well, unfortunately, under our rules ..." is it not wise to do some planning for Armageddon?

***Eoin O'Neill:*** The UK has made that commitment to the EU. It has made a similar commitment on the upholding of the agreements that support the peace process.

***Danny McCoy:*** There are potentially two parts to that. The first is that we do not make that commitment as a business community. The answer we are giving here is about tying up working capital and intellectual capital when there are lots of other things to be getting on with. The political point, which you might be making there, is whether it makes more sense. From a business point of view, yes, it does, but only if both parties have a totality of relationships. We are in the EU 27. There is another EU 26 who have not yet come on to the pitch or concentrated their minds, until they get into the second phase. The nature of EU requirements, again, for the business community, adds that layer of complexity.

Q30 **Lord Whitty:** You will probably say that this was resolved by the December agreement, but there are inconsistencies in that agreement. I am interested in the agricultural food chain. I appreciate that the Irish economy has diversified hugely. Nevertheless, it is still a strong part of your economy and your exports. If there were no regulatory equivalents north and south of the border and east and west, what would be the effect on the food and agriculture sector within Ireland? I appreciate that it is there in the December agreement, but that might not be deliverable. What would that look like?

***Danny McCoy:*** This is definitely one of the major sectors. For Medtech, biopharma and so on, these are quite significant intellectual property balance sheet movements—R&D, the question of a need for a land bridge, in the main—relative to the costs. Agriculture involves a fact of production that cannot move: the grass. Again, on the diversification of Irish agriculture, there have been huge transformations in past years in terms of value added. If you go back 50 years, apart from people, the biggest export out of Ireland was live cattle, with absolutely no value added. Increasingly, there is a lot more value added in processed foods, in particular, in dairy. Grass has led to huge value added. The main problem for other dairy companies is how you burn away the liquid, because what you are after is the nutrients. Now, nearly 20% of global infant formula is produced in Ireland, which is high value added.

Again, within the agri-sector there are lots of significant value addeds. If you take the line between Galway and Cork, that is dairy; Brexit is not that big an issue, all other things being equal. On the meat side and on the milk/liquid side, around the border, that is a complete system that is back and forth but, more significantly, if there is any regulatory divergence or even a scare, it is the whole island that gets closed down. If you have an outbreak of foot and mouth or dioxins, people do not care whether it was that side of the border or this side of the border; the island gets banned from supplying Russia with meat, or whatever it might be. It is absolutely entwined and quite impossible to untangle.

Therefore, it will be at the absolute sharp edge. Any regulatory divergence would seem impossible. That goes to the heart of the inconsistency you talked about in the December agreement. It was trying to reflect a path whereby these things cannot be separated. That is not a political point, it is a business point, but it became a political point as to the leaving behind of Northern Ireland in that sense. In agriculture, it is an impossibility because viruses and the sanitary aspects—that is what you are really talking about—cannot be policed by technology.

***Eoin O'Neill:*** We have a single island food market and regulatory convergence. We have a supply chain that is also built like that. In terms of our ability to feed Britain in many respects, what we send across is coming north and south. The movement of milk is a classic example. The process that kicks in around cheese, for example, feeds on that element as well. We have adopted a single view and to change that would require significant investment. It still would not get you out of the woods in the context of what might go wrong in the future.

***Aidan Flynn:*** A representative from Kerry Foods will be here after this session and will give you the nitty-gritty. There is so much interconnection and interdependence not only on the island of Ireland but with the UK island, in production and processing. We have grown up with just-in-time logistics and if there are delays in any fresh produce at borders, it has a significant impact on shelf life. That is the bottom line. There are massive implications for the agri-food sector here. Some 50% of beef production goes to the UK and there are 200,000 jobs. It is done on a regional basis outside the main cities of Dublin, Cork and Galway. There is a significant impact throughout the island of Ireland. Fifty per cent of all produce produced in the midlands of Ireland goes to the UK. There is a significant dependence on that type of thing. This will be a difficult situation to deal with in terms of the sanitary and phytosanitary checks and where they happen. With agricultural produce and the processed nature of it, inevitably you get lots of different types of products in one consignment and it is a question of how that is checked. You are getting into lots of difficult issues there.

**Baroness Wilcox:** I have lived and worked all over Ireland and been in the food industry most of my life. It is interesting for us to come here. We want to hear what you have to say because we are in a different position than we were. It is so strange. Everybody has a vote and suddenly we are leaving. It is as worrying for the people in England as it is for anybody else, under the circumstances. Hearing you and speaking to you is very important to us right now and I am grateful to you.

***Aidan Flynn:*** I really appreciate that. We have always been aligned. This divergence will be a new thing for everybody. It goes back to the point of how long we need. It is difficult to tell.

Q31 **Baroness Armstrong of Hill Top:** You have been talking about the issues that I wanted to raise coming out of the December agreement, but I want to focus on something else you have already touched on: the regulatory regime. The Commission has said that it does not see how the commitments the British Government have signed up to in the phase 1 agreement can be met if the British Government also meet their commitment to be outside the customs union and the single market. I do not want you to be political about that, but could you say something about the regulatory regimes in terms of trade and how on earth we begin to think about fulfilling that phase 1 agreement if we are not in the customs union and the single market?

***Danny McCoy:*** I do not know whether this is helpful, but on the analogy of the two trains being aligned in the station, this should be the easiest trade agreement possible because we are fully aligned today. The notion is about Britain diverging. Too little thought has been given to the fact that the European trade is going to pull out. The only way alignment can continue is to follow. Therefore, we have an inconsistency of approach. We need either a very clean break here or a very long transition. Business is certainly in the long transition phase. We would have been heartened but not totally comforted by the CBI position on the customs union. That is a partial response. It is going in the right direction, but it still creates quite a lot of difficulty for businesses regarding that alignment. There are huge inconsistencies in the December document, but we are still grateful that it has moved on.

I was in Downing Street when the Prime Minister met with some European business leaders. The logic of the approach of the business community made a lot of sense. The Prime Minister said that if we value a transition period, which we do, the maximum benefit from that transition agreement is that on the day that it starts, which will be March 2019, we know what port we are going to; otherwise, if we start sailing off and do not know the port, the uncertainty continues. The logic of that appeals to everybody. We need to get to this second phase, because to have any chance of knowing what port we are heading to, a lot of work needs to be done in these next few months. Once that has been identified, and the regulatory alignment or divergence, we will still need a very significant transition timeframe to head to that port.

***Eoin O'Neill:*** The key point here is that it is a transitional agreement and not a transitional negotiation phase. Business can plan through an agreed period; it cannot plan through another period of negotiation. That is the challenge.

Q32 **Lord Selkirk of Douglas:** We have gained very much value from the information you have given us this morning, which is very readily understood. Last time we were here, about a year and a half to two years ago, we raised this problem and very clear evidence was given that a hard border would be unacceptable, not just in Ireland but to Northern Ireland and to the small businesses in particular, and therefore that absolutely had to be avoided. The UK's commitment to avoid a hard border had strong support. What is encouraging for us is what you said about transitional arrangements covering this issue, because there is no simple or straightforward solution which is identifiable at this moment in time. What do you think is the minimum the EU will ask for on this issue? Can you tell us a little more about how you would like to see this pan out at the end of the day?

***Eoin O'Neill:*** It is difficult to know what the EU will ask for. I will talk about how it might pan out and out of that will come the discussion about what the EU might expect. On Danny's point about the CBI's position on the UK leaving the customs union, from everybody's perspective, the UK having a customs arrangement with the EU—and Ireland as part of that—is an integral part of driving towards a result on this. A regulatory aligned perspective will allow the two trains to leave the station either together or in a somewhat coherent and cohesive manner, and that will be very important.

The big challenge from a European perspective, and, indeed, from an Irish perspective looking on, is that the UK leaving is only one element of it. The UK's demand to develop a "Global Britain" approach, and where that might go in the future, will cause significant difficulties in the context of the negotiations. The opportunity to trade outside of those jurisdictions and still have regulatory alignment and be part of a customs union will create conflict against that backdrop. Europe will look for the UK to remain fully aligned, and against that backdrop pronouncements about a "Global Britain" and where it goes will present challenges in the negotiation phase, I would argue. That will be the biggest challenge.

**Baroness Suttie:** Are you detecting much evidence of relocation from the UK to Ireland?

***Eoin O'Neill:*** Not yet.

***Danny McCoy:*** May I add one point on the border? One thing we lose sight of is the relationship politically between the United Kingdom and Ireland through the Good Friday agreement. It is three strands and the third strand is now becoming operative because of the Brexit decision. It did not need to be because we were in the acquis of the EU. It involves the totality of relationships. Any relationship forms part of that, be it the supply chain or whatever. The crucial thing that was missed in December, in the obsession between ourselves, is that the EU 26 have said to Ireland that Ireland can continue to have the common travel area. If we do a thought experiment here—this is not a political comment; just a thought experiment—and there was a unified Ireland, and just Britain and not the United Kingdom was leaving the European Union, would we be able to continue to invoke the common travel area? That distinguishes between two forms of EU citizenship here in the Republic, which will always be quite difficult. That has been agreed by the EU 26 in the movement forward. That was a significant change and makes possible the types of solution we are talking about. If you go through the thought experiment of EU citizens not covered by the common travel area, you can see the difficulties that would impose in trying to monitor people.

**The Chairman:** Thank you very much. I think that we should bring you to a halt there. We are extremely grateful to you. One thing that I draw from this is that we now have fewer than 14 months before we are due to leave and we still do not know enough about the final relationship the EU will have with the UK. The relationship with Ireland is absolutely crucial and at the heart of that. We are extremely grateful to you once again for talking to us.