HOUSE OF LORDS

Select Committee on the European Union

Uncorrected oral evidence: Brexit: UK-Irish Relations—follow-up

Wednesday 31 January 2018

9.45 am

Watch the meeting

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

Evidence Session No. 7 Heard in Public Questions 52 - 59

Witnesses

I: Tina McKenzie, Federation of Small Businesses; Wesley Aston, Chief Executive, Ulster Farmers' Union; Roger Pollen, Head of External Affairs, Federation of Small Businesses.

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Examination of witnesses

Tina McKenzie, Wesley Aston and Roger Pollen.

Q52 **The Chairman:** Thank you very much for coming and talking to us today. We are members of the House of Lords Committee on EU affairs. We spent yesterday in Dublin, where we had a busy day of talks, including with the Deputy Prime Minister, Mr Coveney. We are here in Belfast today, and off to Londonderry tonight. We will be looking at issues on both sides of the border tomorrow, before flying back. That is our programme.

We are very conscious that the implications of Brexit are not just Government to Government. It may have implications on businesses, civil society and others who make the economies work. We are very glad to have you here to talk to us. Perhaps I could start by first asking you what you see as the principal impact of Brexit on the areas for which you are responsible. That is a rather broad question, but will get us going.

Tina McKenzie: Good morning, everyone. My background is in the recruitment industry across these islands. I am representing the Federation of Small Businesses for Northern Ireland. My business works across the island. Specifically for Northern Ireland, one of the challenges we face at the moment is an absolute decrease in the availability of labour. Ever since the referendum we have felt that challenge, and it is getting worse.

The Chairman: Getting the labour that you need is harder.

Tina McKenzie: Yes, it is, for the jobs that we have in Northern Ireland. As you know, we have a small private sector economy and a large reliance on the public sector historically. The economy is developing slowly. In percentage GDP per capita, we are significantly below the UK and Republic of Ireland averages. We must do everything within our power to ensure that we give Northern Ireland the best footing.

With the decrease in unemployment, we are now way below 30,000, the lowest that we have had since 2007. There is a hugely significant number for economic inactivity. Some of that is historically where we have come from. It is 28% at the moment. We have a challenge in filling jobs that need to be filled, at both the low end and the high end, in Northern Ireland at the moment. The uncertainty of Brexit and the result of the referendum have put more pressure on that.

The Chairman: Could you expand that last bit a little? How and to what extent is uncertainty creating difficulties for you? What is not happening that would have happened, as a result of Brexit, that is causing difficulties for you?

Tina McKenzie: At the moment, Northern Ireland has around 20,000 Polish people working in our economy, and 37% of our food and drink is exported to the EU. Wesley will talk more about that. There is a huge percentage of people employed in manufacturing here from other countries around Europe. Our manufacturing relies on that. If we had not had the referendum result we have had, we probably would not have the exit of a lot of the people who have come to make their lives here.

A lot of people are going back to the Republic of Ireland, and a lot of people are going to Germany and the Netherlands, where the wages and the economies at the moment are very good. We are feeling the challenge, not just of normal economics and pay competitiveness; we also have the challenge that people are not sure about whether they have a future here because of the uncertainty.

The Chairman: Is it people who were here who are going elsewhere, for example to the Republic, rather than people not coming here who otherwise might have done because they see jobs available? Is it both?

Tina McKenzie: Yes, it is both. Interestingly, a lot of people who came to Northern Ireland to work, set up their homes here and move their children into schools here came from or travelled through the Republic of Ireland, not necessarily from GB to Northern Ireland. Dublin has a higher cost of living, and a lot of people made their way from Dublin out and up to Northern Ireland to make their homes. We are certainly seeing a significant reduction in that, which means that, for small businesses in Northern Ireland, there is more competition for people.

As I say, we have the lowest unemployment we have had in a long time, as well as the huge issue and challenge of people who are economically inactive. While we do not have an Assembly in order to develop policies to support those people into work, we have a real challenge economically.

The Chairman: If somebody from Poland is in Dublin or Cork and sees a job vacancy that looks attractive in Belfast, is he conscious that he is going from one country to another?

Tina McKenzie: That is a good question. Most people do not look at it in that way. Certainly there is an attractiveness to working in the United Kingdom. In Northern Ireland, we have access to services that potentially work in a very different way from those in the Republic of Ireland—for example, our NHS and free access to GPs. However, that being said, if you look at average minimum wage rates in Northern Ireland and across the UK versus the Republic of Ireland, you will see they are 10% to 15% higher. They just had an increase on 1 January, so the wages are way higher. The cost of living in and around the Dublin area is much higher. Northern Ireland is attractive for other reasons. It is a very nice place to live. It has a small village-like atmosphere. It has a small population. It is a beautiful place and underpopulated. It is cheap to live in Northern Ireland generally, compared to GB or Dublin.

Wesley Aston: To put the Ulster Farmers' Union in context, I will give you a bit of background. We have 11,500 members and farming families, across the whole of Northern Ireland geographically and sectorally, ranging from dairy farmers to cereal growers. As soon as the outcome of the referendum was known, we pulled together a policy paper, way back in July of the year before last. At that stage we came up with four key areas.

One of them was the point that Tina has already elaborated on, in terms of labour. That is a big issue, but I think we have covered that enough for now, unless you want to come back to me with any specific questions. It is a genuine concern in terms of availability, not so much for the farming industry but for our processing industry. Obviously we need that, going forward.

We identified three other key areas. One was the whole issue about trade. I will come back to that. There was the issue about regulation, standards and how they are interpreted, and the issue of support. Support through the common agricultural policy is a key issue for the farming industry. We have roughly €300 million a year coming into Northern Ireland. In broad terms, that is where we have been.

We have seen a significant change in currency over that time. That has given a lift, in terms of our outputs, albeit our input costs have gone up, and our direct payments from Europe, because they are paid in euro and converted to sterling. The farming figures for Northern Ireland came out yesterday and showed that we have an 83% increase in real terms from the previous year, 2017 compared to 2016, largely down to currency. Admittedly, that is from a very low base, so the percentage is always high in those sorts of things.

The key issue for the farming industry is, going forward, where we are actually heading. There is obviously a debate around the UK-EU divorce, the phase 1, moving into phase 2. What will that look like and how do we plan ahead? Farming is a long-term business. You do not switch it on and off. You have to plan ahead.

There is the whole issue about where we are going in the longer term. In the meantime, if you speak to farmers in Northern Ireland generally, they are reasonably happy with their situation, compared to where they were previously. We have to look at what lies ahead and use where we are at the minute to allow us to plan ahead. We need to be in a better position to do that.

The Chairman: That is helpful. In our hearings, we have tended to hear a lot about the problems of Brexit. We try to look on the positive side. I just wondered if you or your members see opportunities arising from Brexit. That is not a question that implies that the answer is yes. It is a genuine question.

Wesley Aston: If you break it down into the areas that I have identified, the UK is anything but self-sufficient in food, not only food generally but indigenous food that we produce. There is scope to make inroads there going forward. The key concern is what we have to compete against in terms of imports into the UK, the standards and potential trade deals.

In terms of Northern Ireland, we export very little outside the European Union to the rest of the world. To this idea that there are new markets in America, China or wherever, while they may be there, they will be very small in terms of the benefits that they will have. Our key market would still be the UK generally, the European Union beyond that, and, in fact, the south of Ireland. They may have mentioned this to you as well, but there are big issues with the UK market and access to the UK market. They are not really concerned about going to the rest of the world either, so it is interesting from their perspective. While we see potential within the UK market for our products, we do not see a similar situation at a world level. We do not see lots of trade deals suddenly coming our way. We are concerned about the imports.

The other one I mentioned is in terms of the direct support that we receive. On the figures that came out yesterday, Northern Ireland has a total input for farming of €470 million odd, but €215 million of that came from the single farm payment or basic payment scheme, which is 60%. If that is potentially going to be removed, what is the state of play? We know that the Government have committed, in the current Parliament, to run that until its end in cash terms. That is the guarantee we have at UK level.

We have to look at what happens within the regional distribution of that UK pot of funding. Can Northern Ireland maintain its 10% share? Under the Barnett formula, in terms of population, we only have about 3.3%, but we have, and have had historically, 10% of the agricultural output, so we want to make sure that is maintained.

In terms of opportunities, we do not really see much, apart from maybe extra inroads into the UK market. There are more downsides for us. At the minute, because of this honeymoon period, our members are expecting organisations like us to look at the situation that we have. They are busy just dealing with the day-to-day issues and are not as concerned about going forward. We have to recognise that things will change. We want to make sure we are in a better position when those changes come.

The Chairman: Alas, honeymoons tend not to last.

Baroness Brown of Cambridge: Can I follow up very quickly on something both of you said about the very high levels of unemployment and the need for personnel? Do you have a big skills issue?

Tina McKenzie: Yes. We have a skills issue right across the United Kingdom, particularly in Northern Ireland, with such a small population, 1.6 million. As a population, we are a tiny percentage of the overall UK. Attracting high-skilled, high-level people into Northern Ireland is a challenge. We all hear about the challenges within the NHS for doctors and senior specialists. That is an acute problem here in Northern Ireland.

At the lower end, we have a challenge as well, because you are sitting with 160,000 people on what is called employment and support allowance. They are people who have an issue and at the present moment are not able to go to work. We suffer from long-term generational unemployment. Over the last 30 to 40 years we have seen families, through conflict, that have not had that regular pattern of people being in work, for whatever reason. There are a lot of people still making their journey through depression, mental health or addiction. A lot of that comes from the history that we have had.

There is a huge job to be done there and a huge opportunity, should we invest in those people and ensure they are available and organisations are flexible enough to help them back to work. That is one opportunity, should the local government look at that. For society, that would be a great thing to do, but also for the next generations to see their parents in work, because we know that work is good for people.

Baroness Brown of Cambridge: You need the Stormont Government back in place to have that as a focus and to start to move on that.

Tina McKenzie: They need to make those decisions, absolutely. There is the uncertainty not just of the Brexit conversation but of not having an Executive in place. While we have all this uncertainty, it is not good for business.

Wesley Aston: From our perspective, apart from the processing sector, our understanding is that, effectively, we are at full employment, for the various reasons that Tina has outlined. We need that non-British labour to come in.

Q53 **Baroness Brown of Cambridge:** The answer to my main question may be quite short. I am asking you about the situation now. One of my colleagues is going to follow up with what the problems are going to be when we exit the EU. Do not start going into what it will be like and what the problems might be. Just tell me about what the situation is now, if you can, please. I want to explore the processes for cross-border operations—we touched on that with employing people from the south or wherever—and for movement of goods, north-south but also between the UK mainland and the island of Ireland, so both by land and by sea. I would also like to explore the scale and volume of those operations, and the logistics involved. What is it like at the moment?

Tina McKenzie: From a people point of view, there are at least 30,000 people crossing the Irish border every day for work. That is said to be a conservative figure. If you imagine that there are 800,000 people in work, that is a very significant percentage of the workforce. I worked for many years in cities across GB. Take out the ideology and the politics and, in a sense, it is a bit like saying that we are going to put up a border between Cardiff and Bristol, from a business perspective.

We are so used to going back and forward. Our businesses rely on the availability and are so intertwined in other businesses. We spoke to one member on Monday. Albeit the farmers at the moment, due to currency and getting the payment from the EU, are doing pretty okay, one of our members, who trades in Northern Ireland and does not get supplies from or trade with any other part of the United Kingdom or Europe, has seen the cost of his raw materials increase by 20%. The supplier that is supplying him is reliant on the currency impacts and the trade from other places. At the moment, people going across the border to work and businesses working across the island are really feeling an impact.

Baroness Brown of Cambridge: Is Northern Ireland more reliant on people coming from the Republic or vice versa, in terms of the crossings?

Tina McKenzie: I am not sure of the absolute breakdown, but that statistic is available.

Wesley Aston: From an agri-food perspective, here and now, if you look at trade we have this all-Ireland agri-food economy. Our processors are north of the border and south of the border. Our products move both ways, in terms of raw materials. About 30% of our milk from Northern Ireland is processed in the south of Ireland. About 40% of our lambs go to the south of Ireland. I am guessing about 20% to 30% of the pigs from the south of Ireland come to Northern Ireland. That is for different reasons, depending on product availability, processing capacity and those sorts of things. That is an immediate purely logistical issue.

Baroness Brown of Cambridge: When you are planning your business, you do not even need to think about that.

Wesley Aston: No, you do not. You could lift the phone, and the lambs could go to a Northern Ireland processor today and a southern Ireland processor tomorrow, just as and when. There is a lot of ongoing trade, in terms of the raw materials. In terms of the finished products, I suppose the vast majority of our products go to GB: 25% go locally and about half go to GB. Probably about 14% or 15% of the total goes to the Republic of Ireland and beyond.

There are no real controls around any of that at this stage, because we are part of the European Union and the customs union. We are aligned and you can just drive straight across the border. If you came up from Dublin yesterday, you probably did not even know you had crossed the border on the way back up again.

Baroness Brown of Cambridge: Can you give us any feel for how much of the trade is just-in-time delivery of fresh food?

Wesley Aston: Virtually all—food is a just-in-time industry.

Q54 **Lord Selkirk of Douglas:** You have already answered in quite large part what I am about to ask. Can I focus on what you would see as the likely impact of the United Kingdom leaving the single market and customs union on cross-border movement of goods between the United Kingdom and Ireland, both by land and by sea? For example, how long would it take for industry to prepare for any such changes? What would be the impact on your own industry, in terms of use of Great Britain as a land bridge for the movement of goods between the island of Ireland and continental Europe? How significant do you see the volume of such movement being?

Wesley Aston: We have real concerns about the future in relation to not only the UK's position with the European Union, but our very close relationship with the Republic of Ireland. I know that the phase 1 negotiations came up with that paper just before Christmas and it referred to three options for the UK's alignment and avoiding a hard border. Any border would cause us problems, never mind a hard border.

There have been suggestions of electronic solutions and things, but putting aside the tariffs, as you could argue there might be alignment on those, in the agri-food industry we see the sanitary and phytosanitary controls as key things going forward. It is interesting that we have had more discussion with our colleagues in the United States, New Zealand and elsewhere. They have suddenly been interested in talking to us, for some strange reason. From that point of view, they are very clear that they see that their standards are okay, they should be allowed to come in and their standard is equivalent to our standards. We do not necessarily see it that way; it is the opposite. We are trying to export stuff to China, and find that the Chinese are putting barriers in there to try to control the regulations and how they are interpreted.

Leaving aside tariffs, the issue of the additional non-tariff controls will be really concerning. Going back to the specific question, if the UK were to have different arrangements, it would cause us real problems. We would be worried not necessarily about exports but about the imports that would come in.

Tina McKenzie: I would probably disagree, for different reasons. There is a huge opportunity for Northern Ireland. As you know, we are already given a block grant. If we have a hard border and are not accommodated in Northern Ireland with any sort of trade resolution with the rest of the EU, my suggestion is that that amount would probably have to increase. Therefore, the taxpayers of Great Britain will have more of a responsibility to Northern Ireland.

Within Northern Ireland, we rely heavily on tourism. Most of the tourists who come are not merely travelling and wanting to see London, and then up to Scotland or the Yorkshire Dales. They are coming from Dublin, going to Galway, up to Donegal and across to the beautiful Antrim coast. We rely heavily on tourism and tourism-related jobs. It is such a small economy that any single individual factor could have a huge impact. It is important not just for the economy, our small business owners and employment, but overall for this tiny society that is so deservedly trying to make its way forward as part of the United Kingdom, that that can be ensured through these negotiations—I refer to paragraphs 49 and 50 of the agreement.

I agree with your conclusions on your report. It was very good to hear some of the assurances that we were given. Small businesses in Northern Ireland currently have to deal with slightly different legislation from that in GB, because our devolved Government sometimes decide that it should be different. We are also dealing with an economy on a multicurrency island. On top of that, we are also dealing with legislation from another jurisdiction.

That is all coupled together for small business owners. Layered in on top of that is a hard Brexit, a border that they currently do not have, new legislation, maybe on-costs, never mind that none of us knows the impact of pulling those businesses away. I can give you an example of my business. Although our business is a plc, it was a small business in Belfast in 2013. Our first customers were in the Republic of Ireland. The jobs that I employed people to do were in Belfast. If I look at my customers today, they are investing in new plants in the Republic of Ireland, because they are unsure of what is going on in Northern Ireland.

The Chairman: They are investing in the Republic of Ireland rather than Northern Ireland because of the uncertainty about Brexit.

Tina McKenzie: They are, yes, rather than investing more in Northern Ireland. They are already heavily invested in Northern Ireland, but they are also investing in the Republic of Ireland, which is great for the Republic of Ireland and could be good for the all-Ireland economy. If we are cut off from that it is a very dangerous play, I would argue. No one really understands, for the 6,000 small businesses we represent, or for all the businesses in Northern Ireland, the impact of pulling them away from the access to their nearest market.

At the same time, we also need full availability and access to the United Kingdom, to Great Britain's market. It is in both that this economy sits, firmly in the middle. We have a huge opportunity that could help Great Britain and the Republic of Ireland by becoming the gateway between the two. Great Britain's third largest trading market is the Republic of Ireland on the last statistics that I read. Some were arguing it is fifth. Some were arguing it is third. For the Republic of Ireland, its largest market is Great Britain.

These two major blocs rely heavily on each other, irrespective of mainland Europe. There sits little Northern Ireland, which potentially could increase its trade at ports and across all these islands. That could finally give it the opportunity to take its proper place among the islands and give its people the opportunity to have good, well-paid jobs and a thriving economy. That may mean that it does not rely so heavily on the Exchequer.

Q55 **Baroness Wilcox:** I really enjoyed that, if you do not mind my saying so. My question is: what would be the impact of the United Kingdom leaving the single market to trade in services between the UK and Ireland?

Wesley Aston: I suppose agri-food does not really do services. We do products, so I am not in a position to answer that one.

Tina McKenzie: From a services point of view, I might add something, without maybe going on so long. The services are interconnected. Let us look, for example, at banking. If you look at the main banks that we have in Northern Ireland, some people may not be aware that we have local banks that are owned by international companies. You have Ulster Bank, Bank of Ireland and what was Northern Bank, now Danske Bank. They have locations and businesses in the Republic of Ireland as well.

If I look at our banking arrangements, for example, we are with the Bank of Ireland, which operates across the island. It does not have as many services across GB, but that is okay, because we are operating our part of this business across the island. You have complex things to think about, not just in banking but also legally. If you look at the amount of legislation, not just the issue around the Good Friday agreement and what we committed to, but the EU legislation in between, that sits very nicely. When we are operating in Northern Ireland, we know we are operating generally with the same principles of legislation as in the Republic of Ireland.

I will give you an example. If we look at the temporary agency work directive, which gave agency workers rights and parity pay, in the United Kingdom we said that we would have a 12-week lead-in period. We will work with exactly the same spirit of legislation in the Republic of Ireland. Flexible work is becoming more and more a part of the economy, and we are more reliant on it. We work with the same legislation. The only difference in the Republic of Ireland is that it is from day one. It is very easy for businesses to understand that. Yes, it would be nicer if it was all the same, but we know these things. We have been working within these parameters for many years. There are many pieces of legislation within the services business that businesses will have to become upskilled in. I am not sure who exactly we are tasking to do that.

Q56 **The Earl of Kinnoull:** I wonder if I could take you to the position paper from August last year. In that, the Government talk about the future of the border, particularly the customs border. They talk about a highly streamlined customs arrangement between the UK and the EU, and go on to say that the aim is to "implement technology-based solutions to make it easier to comply with customs procedures". Mr Aston, you mentioned that briefly a bit earlier. I wonder if you could give us some views on how logistically feasible you feel those aspirations are.

Wesley Aston: There are a couple of things. Before our devolved Administration ceased to exist, our Agriculture and Economy Ministers pulled together a stakeholder group. We were considering the whole issue with Brexit. At the end of August of last year, we produced a paper, which unfortunately we could not do anything with, because we had no Ministers to launch it or do anything with it. We just had the civil service.

In terms of trade and looking at EU trade, particularly in relation to the Republic of Ireland and Northern Ireland, there were two key things. This is the industry agreeing, in conjunction with those two civil service departments. Those were to ensure tariff-free agri-food trade arrangements with the EU and minimal non-tariff constraints, and that UK internal trade-related standards and regulatory systems relevant to agriculture, forestry and environmental safeguards must remain aligned and equivalent to those in the EU in the longer term. In terms of non-EU trade, we seek continued access under existing EU trade arrangements to a number of non-EU export markets, so under existing EU trade rules. I suppose that is above and beyond what you are speaking about here in relation to the border issue.

It is very clear that we wanted minimal disruption. The Government came out with that paper on potential technological solutions. It is interesting that, in our conversations with our European colleagues, they are clear that they do not accept that technological solutions will be sufficient to avoid products of lower standard coming through Northern Ireland, the UK or wherever into the Republic of Ireland and then potentially on into Europe. No matter whom we speak to, they are saying that they will not accept technological solutions. They need to be sure that the product does not get in in the first place. You cannot have a two-tier market within the UK or Northern Ireland. As we understand it, the European Union will say, effectively, that it does not accept that those products can transgress into its markets.

Those are the key things going forward. The Government, along with the European Union, in December of last year, came out with options around the border on the island of Ireland. In our discussions with our counterparts in the south of Ireland, they are clear that it is effectively aligning the existing standards. Therefore, you do not need a border control system of any description, whether it is technological, hard or soft.

When we talk to DExEU, it is not as clear as that, saying that there is maybe a bit more flexibility there. Again, we do not know where it lies, so there is a difference of opinion. In our interpretation of the document that came out before Christmas, it refers to alignment of standards to avoid any hard border on the island of Ireland. Technological solutions would not necessarily solve the problem. Any control is additional cost.

As Tina has already alluded to, leaving aside even the economic, industrial side of the arguments, we have the political side and our history. We do not want anything that would give reason to return to where we have come from in the past. Some people may use that as an opportunity to do so.

The Earl of Kinnoull: That is all helpful. Before we go to Tina, perhaps I could ask a couple of supplementaries. I accept that we all aspire to not having to rely on technology. I just wanted to have your view on whether there was any technology that could help at least deal with part of the problem. I will give you some examples.

First, as I know from experience, you can take a dog to Bermuda if it has a microchip. You can get off the plane in Bermuda and pick your dog up. Then you can fly back from Bermuda to the UK, the dog can get off the plane and you can pick it up. Those sorts of microchips work on dogs.

Secondly, all livestock have ear tags these days. In fact, they often have two ear tags. The tagging process is an opportunity to use technology, in terms of putting on to the animal something that can be tracked. Do you think either of those things realistically present anything that would be classified as part of the Government's aspiration from their position paper?

Wesley Aston: We are aware that there are systems out there that will facilitate trade. At the same time, our understanding is that they are more complicated than what we have at the minute. No matter what you do, particularly on a massive scale, given the volume of trade that we move north-south and south-north, I do not think that the controls would be as simplistic as outlined. We still have the position that the European Union is very clear that technological solutions are not a solution to prevent those products entering its markets.

Tina McKenzie: I am still thinking about that microchip idea. I have not heard that come up in this debate yet, so well done. We could practically map what currently goes across the border, who currently trades across the border. We could also map—it would be quite a straightforward thing to do in a small place like this—the trade that goes between the ports of Belfast and GB, and look at air trade. Then one could rest assured that, should we have an open arrangement, we could build some caveats in there, to ensure that we did not have people coming into Northern Ireland or the Republic of Ireland to take advantage of unfair access to Great Britain, which may mean the people there are getting a less competitive market.

For example, a huge multinational could decide to take advantage—we would be delighted—of coming here, having direct access to the GB market and likewise being part of the European market. One could set some rules up to avoid that trade advantage, because that is a concern for some people. That is why they are quite clear that they want some sort of a border there, to ensure that the competition is kept within the United Kingdom and people do not have direct access to the EU.

As far as I am aware, no one has yet mapped the size of trade that we are talking about. We have the statistics from various organisations, but it is a small economy here. It would be quite straightforward to map north-south and map the current situation between the north of Ireland and the west of the United Kingdom. From that, you could build some generic rules around the trade regulations, rather than creating this border, this microchipping or all these other things that will just ensure more on-costs and inconvenience to business.

I do not know, but I am sure you would not be aware of what the queues used to be like at the borders. I was a baby, but I have seen it on TV and heard the stories of the queues at the borders.

The Earl of Kinnoull: I just want to get on the record that in fact there is quite a good Office for National Statistics pile of data on exactly what you have just been talking about. I think it published that last December. It just shows you the size of the problem. The problem is very big. It is a very helpful answer. Thank you.

Baroness Brown of Cambridge: Could I ask a quick supplementary? Do not worry if you do not have the information. In terms of the Federation of Small Businesses, do you know roughly what proportion of your members would do any export or trade beyond the EU at the moment?

Tina McKenzie: We have that from a UK perspective, not specifically Northern Ireland.

Roger Pollen: I am head of external affairs for the FSB, so came lately to this. On a UK-wide basis, about one-third of our firms trade with the EU. Here, because it is so easy to trade with the Republic, it is slightly distorted and slightly less visible perhaps. I do not have detailed figures on that. As we have gone through this process over the last weeks and months, quite a number of questions are coming forward that we want to get local, Northern Ireland answers to. We are in the process of preparing a survey for our membership in Northern Ireland, which will be going out into the field in the next few weeks. That will get more localised data, as we start to see the questions we have being answered and solutions being mooted.

Baroness Brown of Cambridge: I was interested in the proportion of trade beyond the EU. What proportion are already used to the additional administration needed?

Roger Pollen: A lot of our members are. I was talking with someone earlier this week who trades to 29 or 30 countries, most of which are outside the EU, so they are used to that. It is not that you have the EU and everything else; everything else has its own peculiarities in it. The agri-food sector has been very nimble at getting out and looking at those markets. We have a lot of members that trade outside the EU as well.

Tina McKenzie: We have the statistic on Northern Ireland: 60% of all goods are exported to the EU. That obviously includes the Republic of Ireland.

The Chairman: If you have any figures hidden away about exporting outside the EU from Northern Ireland, that would be helpful.

Wesley Aston: There are statistics available for the agri-food industry. Only about 3% of Northern Irish food goes beyond the European Union market.

Q57 **Lord Whitty:** We have virtually covered this, but Lord Kinnoull's question started from customs procedures at the border. Mr Aston referred to phytosanitary and sanitary checks, and animal welfare and animal health checks. Perhaps you could say a little more about that. The UK Government's paper talks about having a single epidemiological area and looking to retain that. Could you put the reverse picture? What would happen to the agriculture and agri-food sector were there no single agreement, and no full alignment of food and animal welfare standards?

Wesley Aston: As I mentioned, there are two elements to it. One is the tariffs side, but that is not as concerning, because there are potentially ways around that. It is the issue about the standards and these controls around sanitary and phytosanitary issues. Historically, when we did not have alignment of rules, a lot of checks had to be done. Even while we are in the European Union at the minute, we still have checks around different identification systems and disease requirements going south of the border or coming north. That is an element of that even within what we have currently as a member of the European Union.

Beyond that, if we did not have alignment, that would be huge in its own right. Even if tariffs were the same, the amount of effort that would be entailed in the checking and controls for those particular issues about the standards of products would be huge, and would add significant costs.

Picking up on a point from earlier, Defra is now engaging with us. There is a meeting coming up. It was here before Christmas, and it is coming back again. There is now a big team in Defra, which is looking at trying to map agri-food trade between Northern Ireland and the Republic of Ireland, and vice versa. That is an ongoing process. Our processors are clear that any controls over and above what we currently have would add competitive disadvantage.

Lord Whitty: In terms of the processed food, would that also be a problem there?

Wesley Aston: Yes. It is not just a matter for the raw materials. It is the processed part as well.

Tina McKenzie: Do not forget there is also a challenge there for Great Britain. A lot of the companies we do business with in the Republic of Ireland are British food companies that have set up in the Republic of Ireland. They are robust and have access to European markets, although there are challenges with the currency. Not having access could also impact those companies, because they are mostly providing to GB. Some of the largest food companies in the Republic of Ireland, 2 Sisters Food Group and others, are supplying to GB. It may also have an impact on that relationship and that part of the agri-food economy for the islands as a whole.

Q58 **Baroness Armstrong of Hill Top:** Mr Aston, you have talked about the December agreement. I wondered if you could say a little more about what you take from those phase 1 negotiations. What are the implications of that "agreement" at the moment?

Wesley Aston: I have already touched on the different interpretations between what the south of Ireland thinks it means and what our contacts at DExEU think it means. We would like to see as much alignment as possible, to negate the need for any sort of border, whether it is technological or otherwise. It is important that we find out very quickly exactly what those paragraphs and those three options for the island of Ireland mean.

Over and above that, the issue about transition is important. The sooner we can clarify exactly what we are aiming at, the better. Do we have to align ourselves with all the existing EU policies, rules and regulations up to the end of December 2020, as the European Union has said, or do we change? That is a big impact, going back to the point I raised about the level of direct support from the common agricultural policy. Will we be involved in that? Will we not be involved in that? Can we change the rules, or do we have to adhere to that system until we leave or up to 2020, in terms of the transitional period? We need clarity as soon as possible around that. Interpretation of that particular UK-EU agreement will be critical, and the sooner we can get clarity about that the better.

Tina McKenzie: Generally we are comforted by the fact that paragraph 50 of the agreement states, "In the absence of agreed solutions, as set out in the previous paragraph, the United Kingdom will ensure that no new regulatory barriers develop between Northern Ireland and the rest of the United Kingdom". It goes on to say that it will ensure we do not have a hard border. How it works is the question. How do we enact it?

Practically, for Northern Ireland, I really do not see anyone with any significant grasp of this society putting microchips on our people, products or businesses. It is not attractive, and I am not suggesting that is what was suggested. I am saying that, in this particular society, with us being so interwoven in the United Kingdom and interwoven on the island of Ireland, from a business point of view, it is not so straightforward to come up with a solution that just tracks tariffs and trade.

We were comforted by the fact that the United Kingdom Government have given assurances between north-south and east-west. They are pretty clear, as far as I can see, but the solution is not. One thing to consider might be, for example, in the north of Ireland, a free port. This great place did build great ships at one time. Looking back to the early 1900s and what we need to do around the United Kingdom economy generally, there are opportunities here for both islands, from an economic point of view. Maybe Northern Ireland could have a free port.

One of our challenges is that we do not have anybody putting these advantages for Northern Ireland forward, because we currently do not have a voice at the EU. We do not have a voice in Stormont as the point of contact to discuss the detail of what can work for this place. But we were comforted by those paragraphs.

Q59 **Baroness Suttie:** Can I just expand a little on your last comment? You are clearly people with a huge amount of experience and an awful lot that you could input. For a year now there has been no Executive. Do you have ideas or suggestions as to how, in the continued absence of an Executive, Northern Ireland's voice can be effectively heard, especially during the next few months, for this critical period, having gone into phase 2, where the nitty-gritty is going to start to be discussed? Do you have any creative suggestions?

Tina McKenzie: We are very creative people in business. Where there is a problem, we find a solution. I was part of an organisation led by Lord Alderdice, the Centre for Democracy and Peace Building. I got involved in sponsoring seven EU debates about Northern Ireland. The nice thing about those debates was that they were non-political. They were not either pro or against. They were simply a debate about the implications of Brexit, borders and customs changes.

We went to different parts of Northern Ireland. This was just a group of volunteers doing this. We went and had a meeting with the agri-food industry down in Dungannon, which is where a lot of our agri-food jobs are. We had a meeting with the legal profession in Northern Ireland. The complexity of what it has to do is huge, aside from everything else. We also had meetings with the public sector. The list went on. We did seven different verticals.

That is what we are seeing in Northern Ireland. We are seeing business groups and organisations that care deeply about this place getting together, having those debates and having informed discussion. There is a lot of information that is not out there. There is a lot of complexity, so people simply cannot get their head around the legislative piece and separating all the legislation that has come along. There are all the advantages that we have had, as a society, being part of the EU. We look at the European Social Fund. We just had a new round. That supports many in the third sector, as we see cuts in our public sector.

We could have a more robust, informed group of people from different sectors discussing the challenges they face. I would assume that we are less likely to get the ideological sweep behind that, and more likely to get the day-to-day impacts, some solutions and some opportunities. If we can get this right, there is a huge opportunity for Northern Ireland to be the bridge between these two great trading nations.

Wesley Aston: The Ulster Farmers' Union is a small "p" political organisation. We do not get involved in high-level politics. We want to make sure that we have a clear position not just across the agri-food industry but beyond it. We are currently working in conjunction with trade unions, the CBI and others, to try to identify what Northern Ireland needs going forward out of Brexit.

Tina McKenzie: There is not one joined-up group of people inputting into the debate at the moment. That was recommended to the Taoiseach on his first visit here by Queen's University. There is a reservation from some of the politicians because there is not the Executive. Politicians like to engage with the elected representatives. It is a very sensitive debate.

The Chairman: Thank you very much. I am extremely grateful to you. That has been a really interesting session today. We are very grateful to you. You have given us a lot to think about. Thank you very much for expressing yourselves so clearly and articulately, and at times forcefully. We are grateful to you both. Thank you.