Written evidence submitted by The UK Trade Policy Observatory (UKTPO) University of Sussex (NIP0035), relating to the Brexit and the Northern Ireland Protocol inquiry.

This submission of written evidence addresses:

1. **The preparedness of government, public services and businesses for the Protocol taking effect on 1 January 2021.**

The Withdrawal Agreement between the UK government and the EU (January 2020) contained special arrangements for Northern Ireland - the Northern Ireland protocol - to avoid a hard border on the island of Ireland. The provisions of the protocol automatically entered into force on 31 December 2020, at the end of the Brexit transition. The impact of the Northern Ireland Protocol (NIP) is related to what was also agreed for trade between the UK and the EU under the Trade and Cooperation Agreement (TCA). For example, the rules of origin which are part of the TCA are also applicable for goods at risk going from GB to NI. As the TCA was not agreed and then signed until the 30th December 2020, it is clear that neither government, public services and businesses were adequately prepared, indeed could have been adequately prepared given they only had one day to do so.

It is also the case that, other than providing information on various government websites, the UK government could have done considerably more to prepare businesses for the impact of the Protocol on businesses. The TSS (Trade Support Service) was only launched at the end of September 2020, which gave firms only three months to prepare for the protocol, and that was without knowledge of what the trading arrangement would be between the UK and the EU. The UK government only launched its Brexit Support Fund for SMEs in February 2021. In contrast, InterTrade Ireland, which supports SME business on the island of Ireland, launched its Brexit Voucher scheme as a pilot in 2017 and as a full scheme in 2019. The Dutch government launched a similar scheme in 2018.

Hence, EU partner countries who are likely to be less impacted than the UK could organise such business support, while the UK government did not. It is not clear why the UK government failed to put in place more measures, but the lack of planning and preparation by the government and the lack of adequate support to businesses represents a failure of government.

Since January 2021, there is also considerable evidence (reports by firms, conversations with stakeholders etc) of difficulties being experienced by firms in obtaining appropriate support and correct information. While in principle having a support service such as the TSS is to be recommended, it is also appears that the TSS is understaffed and has insufficiently qualified personnel who can give conflicting advice. To some extent, given the hurried nature in which the TSS was introduced this is not unexpected.

Recommendation 1: *The activities and success of the TSS should be urgently monitored and evaluated, so that the support service can be improved to meet the needs of businesses in NI and trading with NI.*

2. **The implications of the Protocol for intra-UK Government and public service co-operation, and for intra-UK trade.**
3. **The implications of the Protocol for intergovernmental and public service co-operation between Northern Ireland and the Republic of Ireland, and for trade between Northern Ireland and the Republic of Ireland;**

Here, we respond to questions (2) and (3) with a focus on the last part of this question with regard to intra-UK trade and trade between NI and the Republic of Ireland, and also with GB.

The early empirical evidence on UK trade indicates a potentially dramatic impact on both UK imports and exports with the EU as a result of Brexit (see the UKTPO recent Briefing Paper no.57 which discusses this[1]

). Evidence from Ireland also indicates a substantial reorientation of Irish trade with NI and GB. See Table 1 below which shows that up to April 2021, Ireland had increased its exports to NI by up to 40%, and imports from NI by 60%, while the corresponding figures with the UK were 6.9% and -39%. These are very big changes and huge differences in the changes both with NI and GB for Ireland. While of course there will be other factors, they arise both from the TCA and from the NIP. For example, many firms in the Republic of Ireland purchasing from Northern Ireland are also likely to have GB in the supply chain.

What is missing is information on what has happened to 'trade' (sales) between GB and NI in both directions. It is clear from the preceding that it will have been substantially affected, but what is less clear is by how much, the differential impact across different sectors, the impact on SMEs versus large firms, and the impact on prices.

The impact on bilateral flows between GB and NI will have occurred and be occurring (both with regard to firms selling smaller volumes than previously, and also with some firms simply choosing to stop selling to NI) due to several issues, such as:

- Lack of knowledge regarding whether or not paperwork is required, what papers are required, how to fill out the paperwork, how to use the computer systems
- The increase in firms' costs arising from the above, and from the possible introduction of tariffs (and then, where relevant, claiming for rebates) for goods 'at risk'
- The uncertainty derived from the preceding and the on-going 'discussion' about the future of the NIP and its implementation.

From a policy point of view – ie understanding the scale of the effects, and introducing policies to mitigate the effects of the NIP it is important to have a clear understanding of what is driving the changes in trade flows.

With regard to trade flows between Ireland and GB it is important to have a better understanding of the data. For example, in the table below the Irish statistics suggest a decline in imports from GB of 38% (in comparison to a year earlier). However, the way in which trade statistics are collected and then reported has changed as a result of the UK's exit from the EU. Prior to January 2021, Ireland would have collected the data on an Intrastat basis; post January 2021 the data will be on what is called an IMTS basis. This means that both the underlying source of the data is different and the rules defining what is an import from GB have changed. UK reporting of the mirror flow (UK exports to Ireland) have also changed. Hence comparisons over time are currently very difficult.

Recommendation 2: *Given the scale of the impact of the NIP on business in Northern Ireland we recommend that detailed firm-level surveys are undertaken by ONS and NISRA to establish the impact on bilateral trade in goods and services flows between GB and NI by sector, and by firm characteristics. It would be better for these to be comprehensive, but failing that, they could be done on a representative sample of firms.*

Recommendation 3: *There should be urgent monitoring and evaluation of the impact of the NIP on* ***both*** *NI firms and GB firms trading with NI on their costs, sales, and changes in their supply chain. This should be done through the collection of appropriate statistics, and through surveys of businesses.*

Recommendation 4: *The UK government should work closely with the Irish Government and the Department of the Economy in Northern Ireland to understand better the existing data on trade flows and its comparability over time.*

Table 1: Irish Trade Statistics: change in trade flow[2]

[1] https://blogs.sussex.ac.uk/uktpo/publications/post-brexit-uk-trade-in-goods/

	Exports		Imports	
	March	April	March	April
GB	-2.6%	6.9%	-47.6%	-38.8%
NI	22.4%	40.3%	44.2%	60.7%
UK	1.2%	12.1%	-37.5%	-27.9%
EU	12.4%	-5.2%	-5.7%	7.4%
Non-EU	-7.1%	-7.1%	21.9%	31.1%

March = comparison of Jan-March 2021 with Jan-March 2020
April = comparison of Jan-April 2021 with Jan-April 2021

4. The implications of the Protocol for the Northern Ireland economy and for investment in Northern Ireland;

There are several factors derived from the NIP and the TCA which are likely to impact upon investment in NI:

- Relative to GB, Northern Ireland now has better access to the EU market; relative to the EU, NI now has better access to the GB market. This improved relative access could result in an increase in investment in NI.
- However, the increase in NI – GB trade costs will impact on firms' profits and thus their longer-term investments and may reduce investment in NI.
- Additionally, the restrictions on labour mobility between the EU and NI are likely to impact on the availability of migrant workers – both unskilled (eg. in food processing) and skilled (eg. in advanced manufacturing). Anecdotal evidence with regard to both of these suggest NI firms may be having difficulties with recruitment. The greater those difficulties, the less attractive NI becomes as an investment location.
- Finally, as is well documented, stability and predictability are important determinants of investment. The ongoing uncertainty regarding the NIP and its operationalisation, both in the immediate future, and with regard to the consent vote due to take place in December 2024, may have a negative impact on investment.

Recommendation 5: *The balance of these factors cannot yet be determined. However, the UK government should ensure that it is monitoring and evaluating these factors on a regular basis in order to build up a body of evidence over time. This will almost certainly require, regular focussed investment surveys, as well as extensive consultations with the business community.*

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[2] Source: https://www.cso.ie/en/releasesandpublications/er/gei/goodsexportsandimportsapril2021/