DÁIL ÉIREANN

ROGHCHOISTE SPEISIALTA AN TSEANAID UM AN RÍOCHT AONTAITHE DO THARRAINGT SIAR AS AN AONTACH EORPACH

SEANAD SPECIAL COMMITTEE ON THE WITHDRAWAL OF THE UNITED KINGDOM FROM THE EUROPEAN UNION

Déardaoin, 4 Bealtaine 2017

Thursday, 4 May 2017

The Select Committee met at 10 a.m.

MEMBERS PRESENT:

Senator Paul Coghlan,+	Senator Michelle Mulherin,
Senator Gerard P. Craughwell,	Senator Gerald Nash,
Senator Mark Daly,	Senator Niall Ó Donnghaile,
Senator Paul Daly,	Senator Joe O'Reilly,
Senator Michael McDowell,	Senator Grace O'Sullivan.*

* In the absence of Senator Frances Black.

+ In the absence of Senator Joe O'Reilly, for part of the meeting.

In attendance: Senator Victor Boyhan.

Engagement with Central Bank of Ireland

Chairman: Apologies have been received in advance of the meeting from Senator Frances Black, whose substitute is named as Senator Grace O'Sullivan. Before we begin, I remind members and witnesses to switch their mobile phones off or to airplane mode.

On behalf of the committee, I am delighted to welcome Dr. Gabriel Fagan from the Central Bank of Ireland and his colleagues, Mr. Mark Cassidy and Ms Mary-Elizabeth McMunn, for this very important session as we continue the work of the committee. We have already had quite a few discussions with a number of people on a range of areas, but today's sessions will focus very much on the economic impacts of, and possible solutions to, the problems presented. We very much look forward to the engagement with the witnesses. After the initial statement we will have a chance for a very good back-and-forth through questions and answers. However, before we begin, I must read out a note on privilege.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable. By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. If they are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are only entitled thereafter to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable.

I again thank the witnesses for their presence. I pass the floor to Dr. Fagan.

Dr. Gabriel Fagan: I welcome the opportunity to appear before the committee to discuss the implications for the Irish economy of hard and soft Brexit scenarios. I am joined by Ms Mary-Elizabeth McMunn, head of our supervisory risk division, and Mr. Mark Cassidy, head of the financial stability division. Mr. Cassidy is also the chair of our internal Brexit task force. This task force was initiated approximately one year in advance of the referendum and indicates our proactive approach to preparing for potential Brexit-related issues. The task force comprises representatives from divisions across the bank and provides comprehensive assessments of Brexit-related matters to the Central Bank Commission and to the bank management generally.

Brexit will have significant implications for trading arrangements between the UK and the EU with effects also on labour markets, investment patterns and capital flows. The impact will depend crucially on the terms of the UK's exit, in particular the timing and nature of a final trade deal. In addition, the impact will depend on the nature of the transitional arrangement, if any. Ireland stands out as the EU economy likely to be most affected. This reflects the size and nature of our economic and financial linkages with the UK, including our shared land Border. In my opening remarks I will set out the assessments of the Central Bank regarding the channels through which the economy is likely to be most affected, with reference both to challenges and opportunities, as well as some important policy issues for national authorities, including the Central Bank itself.

Ireland's reliance on UK markets for our international trade has reduced considerably over the past 40 years but remains significant. Before Ireland's accession to the EU in 1973, the UK accounted for over 50% of Irish trade. This has fallen to under 14% for goods exports and under 20% for services exports. Almost 26% of the goods imported into Ireland, but only 8% of services imported, are from the UK. Nevertheless, Ireland is still more reliant on the UK export market than any other EU country. Certain sectors of the economy rely more on UK markets than others. These include traditional manufacturing sectors, agrifood, materials manufacturing and tourism. Interestingly, these sectors are often quite labour-intensive, and it is notable that a large number of small and medium-sized enterprises are engaged in UK markets either through trade or tourism.

The overall impact of Brexit on the Irish economy and financial system remains subject to considerable uncertainty, depending in large part on the nature of the new trading arrangement to be agreed between the EU and the UK, including possible transition arrangements and the capacity of our economy to adjust. From communications issued by the UK Government, we know that the UK will not seek continued membership of the Single Market, or a "soft" Brexit, as red lines for the UK are the control of immigration and the ending of the jurisdiction of the European Court of Justice in the UK. It will instead seek an ambitious free trade agreement with the EU, perhaps some form of customs agreement and some form of transitional arrangement or, as the UK calls it, a "phased process of implementation". Under this scenario, an agreement would be based on tariff-free trade in goods but not services. Over time, some regulatory divergence between the UK and EU may emerge, which could lead to an increase in non-tariff barriers. This seems to plot a middle course between a soft and hard Brexit, although until the negotiations are finalised, a hard Brexit cannot be ruled out.

Under a hard Brexit scenario, the UK would leave the EU without a trade agreement and would instead exercise its rights under the most favoured nation, MFN, clause of the World Trade Organization, WTO. Under this most damaging scenario, goods trade would be subject to tariff and non-tariff barriers, which would vary across sectors, leading to more significant negative effects on trade. Under this scenario - the hard Brexit - our estimates suggest that after ten years, GDP would be lower by 3% and the number of people employed would be 40,000 fewer, compared with a benchmark no-Brexit scenario. This estimate is in line with those of the ESRI and the Department of Finance. These aggregate figures mask the fact that certain sectors and indeed regions of the economy would be disproportionately affected and some small and medium-sized enterprises are likely to be among the hardest hit by Brexit.

A hard Brexit may also require sudden regulatory and financial adjustments, since UK financial firms would lose passporting rights associated with EU membership. This is likely to be accompanied by a period of heightened uncertainty in the financial services sector. The importance of a transitional period to mitigate potentially disruptive cliff effects in the workings of the financial system must be recognised.

Our analysis is that the overall economic effects for Ireland in both the short term and longer term will be negative. The effects will be much worse if no free trade agreement can be reached. In the short term, before new arrangements come into effect, which is not likely to be until at least 2019, the main effects may come through the exchange rate channel and uncertainty. The value of sterling has generally traded in the range of 10% to 15% weaker against the euro since the time of the Brexit referendum in June 2016. This makes Irish exports to the UK more expensive. There is already some tentative evidence of this exchange rate effect in the economic data. For a number of important food and beverage sectors, the value of exports declined last year even though volumes increased. This may be some indication of exchange rate fluctuations having an effect on export values. Irish imports will also be affected by Brexit, that is, the prices that exporters receive for exports to the UK. Imports will also be affected by Brexit. In the near term, the weaker value of sterling has put downward pressure on import prices, which is beneficial for consumers and producers who use UK imports in the production process, but can leave Irish producers who are competing in the same markets at a competitive disadvantage.

Over the long term, slower growth in UK consumption and investment, if it materialises, and in particular, any new barriers to trade including tariffs, will also weigh on some Irish firms. In the event of a hard Brexit, the trade impact on different EU countries will depend on the share of total exports and imports accounted for by the UK, the size of tariffs imposed on exports, which differs very significantly across sectors and products, and the sensitivity of exports to price changes, which also varies across sectors. A detailed EU-wide sectoral analysis undertaken by ESRI researchers shows that Ireland is the economy most affected by Brexit due to the fact that we have the highest share of our exports going to the UK and that the tariff rate on our exports to the UK would be almost double the EU average due to the very high rates on agricultural and food products under WTO rules. Their analysis shows that under a hard Brexit, and taking into consideration all these factors, Irish exports to the UK might fall by around 30%, which would be equivalent to an overall reduction in our exports of over 4%. The imposition of tariff or non-tariff costs would not only reduce trade volumes but also increase import prices, which would likely be passed onto consumers.

From a financial stability perspective, we are monitoring the impact that Brexit will have on the Irish banking system. Weaker UK and Irish growth will negatively affect those banks which have significant UK exposures. The weaker sterling exchange rate will reduce the value of profits and assets that are denominated in sterling. Other financial sector firms may also be affected, either positively or negatively, depending upon their business models and the extent of their UK business. Since before the referendum the Central Bank has been engaging with firms from across the financial sector to ensure that they are fully accounting for risks that may arise from the Brexit process.

The risks and uncertainties regarding Brexit underline the importance of stability-oriented policies, notably in the area of public finances and financial system stability. Also, the challenges in areas of trade and investment underline the importance of maintaining competitiveness and ensuring that Ireland remains a flexible, adaptable economy that is supportive of enterprise and innovation. The risks from Brexit can be mitigated by further expansion of our trade links with other EU and non-EU countries, particularly for the indigenous sectors that are currently more reliant on UK markets.

Brexit will also present new opportunities for the Irish economy. Most notable in this regard is potentially stronger inward foreign direct investment as a result of both a relocation of existing UK-based FDI to Ireland and new FDI flows locating to Ireland instead of to the UK. It is too early yet to see any evidence of such flows but they could create new employment opportunities and add to growth in the economy, while at the same time potentially creating challenges and opportunities, including for the property sector. Already Irish commercial property agents have noted increased office accommodation enquiries from British companies. In addition to the availability of office space, sufficient housing and adequate infrastructure will be required to accommodate any additional investments in Ireland, including notably in the international financial services sector.

In the financial sector, new business lines and new firms bring new opportunities, new challenges and new risks. In addressing these, it is important to note at the outset that the Central

Bank does not have a mandate to promote the development of financial services in Ireland. Rather, our mandate is to safeguard stability and protect consumers. In assessing any application, we are guided by that mandate such that each application is assessed to understand the business, its risks and how they are managed and mitigated. This is critically important for the stability of the sector as a whole, for ensuring that financial firms are soundly financed and soundly run, and for ensuring that consumers of financial services are appropriately protected.

Since the referendum, as firms weigh their options for a post-Brexit world, the Central Bank has received a large number of Brexit-related authorisation inquiries from across all sectors, including banks, insurance companies, investment firms and payment institutions. They have been considering a variety of factors relevant to their business, and wish to understand our approach to authorisation and ongoing supervision, such as substance, risk management and governance structures.

Overall, the level of Brexit-related activity and developments is in line with what we expected to see following the referendum decision. In the coming weeks and months, as firms make decisions, we expect to see a meaningful increase in applications for authorisation or for extension of existing business. As the Governor, Professor Philip Lane, has already said, we deal with inquiries in an open, engaged and constructive manner and are committed to providing transparency, consistency and predictability in our regulatory decisions. To deal with the increased level of activity, we have increased or are in the process of increasing our authorisation teams across all sectors. Since Ireland is already home to a large-scale international financial services centre, we have considerable experience in dealing with such authorisations. Our regulatory approach is in line with sound practices being agreed across Europe; our responsibility is to ensure that firms authorised to operate from Ireland demonstrate compliance with EU requirements. To this end, we seek to ensure that an entity will be substantively run from Ireland and that the set-up permits effective supervision, with local management accountable for decision making. The Central Bank has consistently said it is not sustainable to entertain proposals that fall short of these basic requirements. We are actively engaged in the work of the European supervisory authorities and with our colleagues within the ECB Single Supervisory Mechanism, SSM. It is worth noting in this regard that the SSM has recently issued important guidelines for banks looking to relocate their businesses within the euro area. The guidelines set out the ECB's supervisory expectations in a number of areas, including internal governance, risk management and outsourcing. ESAs are also advancing their work on these issues in respect of other entities such as securities firms and insurance companies. Regardless of where a firm locates, it should expect that there will be rigorous assessment of the applicable EU regulatory standards and intrusive ongoing supervision of its activities.

The Central Bank of Ireland will continue to monitor Brexit developments in this area and, via its Brexit task force, co-ordinate expert analysis from across its supervisory and economics functions to ensure an integrated and comprehensive understanding of economic, financial and regulatory risks.

Chairman: I thank Mr. Fagan. Before I bring colleagues in, I have three quick questions. On authorisations, Mr. Fagan mentioned a number of inquiries. How many applications for authorisation have been received and what is the average waiting time to process them? Mr. Fagan mentioned the opportunity in respect of trade expansion. Is he interested in sharing the names of those countries or regions which are most ideal in terms of possible expansion? The first questioner on my list is Senator Joe O'Reilly.

Senator Joe O'Reilly: I welcome our guests and thank Mr. Fagan for his submission. To begin where the Chairman left off, it has been alleged in some media outlets and anecdotally that the Central Bank is too restrictive and conservative in its authorisations and that we run the risk of missing opportunities. While I understand the point Mr. Fagan made on that, is he happy that the bank is going to strike an adequate balance between the need to attract new financial services and banking, employment and trading opportunities for the country and the need to operate proper restrictive practices? That has been alleged and I am interested to hear the response.

How much of a bonus will we see? One of the opportunities in Brexit is that we might attract new financial services to augment business here. We are being told that Frankfurt is going to win the lion's share. How optimistic is Mr. Fagan? I acknowledge that he will not want to be overly speculative, but what is his sense of that opportunity from Brexit in the event that our previous distinguished speaker and former Taoiseach, John Bruton, is not correct in his hope that Britain will not leave?

I turn to trading arrangements. Assuming that there is a form of customs agreement, does Mr. Fagan rule out completely the prospect of free trade? We have obviously had a huge achievement in the area of free movement of people, which has been well discussed and documented in the last few days. It is not necessarily totally a matter of Mr. Fagan's remit. In any event, the achievements there are to be noted and were a critical first set of achievements. Now, however, the major focus is on trade in respect of which there was a somewhat disappointing report this morning from accountants. Does Mr. Fagan see any hope of the *status quo* continuing to obtain? In the event that it does not, what levels of custom duty will apply in practice? How greatly would they devalue our exports? What sectors of the community will be hit? Am I right in thinking that agriculture is under huge threat and that some agricultural exports may not be viable?

Mr. Fagan referred to transition arrangements. Is he hopeful of a delay? Can he elaborate on what he meant in saying that we might achieve tariff-free trade in goods but not services? I am interested in teasing out, in practical layman's terms, how Mr. Fagan sees Brexit impacting on specific exports in the cost added, the degree to which value will be weakened and the degree to which the domestic economy is threatened. How will arrangements unfold? Will people have to pay direct customs? If there were no customs, would a monitoring process for goods crossing the Border still be required as it will be a frontier between the EU and UK? Will there have to be a checking of goods at that level involving a cost for exporters? What are the nuts and bolts of how Mr. Fagan envisages it working so that we can be informed in our discussions with the sectors seeking to discuss the matter with us?

Senator Michael McDowell: There are a lot of questions for Mr. Fagan there. The notion of tariff-free services has occurred to me. To take something close to home, if a lawyer in Ireland provides services to a British firm and sends a bill, in what sense would there be tariffs on the payment made? It might be a lawyer's or a financial adviser's bill. I find it difficult to grasp how, apart from the lawyer paying VAT in Ireland or Britain, tariffs on services could operate very well.

Given that the Central Bank takes the view that Ireland is the most affected country and that the effects could be quite serious by sector, can Mr. Fagan say something about special arrangements for Ireland? The former Taoiseach, Mr. Bertie Ahern, mentioned the possibility of a common trading area as well as a common travel area. In that context, I presume the disengagement of the UK from the EU will involve a multi-annual period. Has any consideration been given, by the Central Bank or any of the State agencies with which it operates, to different phasing arrangements for Ireland? In other words, if tariffs were to come in, could they come in at a slower rate for Ireland or over a more extended period?

Deputy Michelle Mulherin: I welcome the witnesses. My first question is on the efforts that have been made by the remaining member states to attract banks and financial services. There are reports that there will be a race to the bottom in terms of supervisory standards, which, considering all that we have been through with the banks not only here but abroad, is shocking. My colleague has asked if there will be flexibility so that we can attract banks and financial services to Ireland. In what areas will we be allowed to be flexible? Where can wheeling and dealing be done to attract businesses without compromising standards or taking an undue risk of compromising a system put in place to protect people in member states who have had to bear the brunt of the near collapse of the banks?

I have heard comment and discourse in the media suggesting that if we do not get what we want in the event of a hard Brexit, we should leave or threaten to leave the European Union. This does not appear to be a sensible proposition. It is not clear what the British want from Brexit or even if they know what they want or know how they propose to get it. All we have heard is what they do not want and everything seems to point towards a hard rather than a soft Brexit.

The witnesses described how our dependence on the UK market has declined since we joined the European Economic Community in 1973. Sectors such as agrifood and indigenous manufacturing continue to rely on the UK, however. People in the west are not expecting financial services companies to wing their way over to us. Galway city is probably the only location in the region that stands a chance of securing such investment. We are preparing in whatever way we can for Brexit. I ask the witnesses to comment on the suggestion that the Government's position was weakened by its failure to threaten the European Union with leaving.

On the rules associated with the fiscal compact, the witnesses and speakers at previous meetings described the need for businesses to restructure and find new products and markets. The Government intends to assist companies to do this. This will require an increase in expenditure, which could put pressure on the Government to increase the fiscal space. Should the Government seek a derogation from the expenditure rules under the exceptional circumstances provided for in the treaty? Is such a derogation being considered and would it give us flexibility to deal with the fallout from Brexit, especially given the current trajectory of the negotiations?

On state-aid rules, certain regions, specifically in the west, are especially disadvantaged and are not experiencing the economic recovery to the same extent as other regions. Figures from the 2016 census show that the population in the west is declining and ageing. The reason for these trends is that young people are leaving owing to a lack of job opportunities. Another critical factor is that areas in the west do not have good infrastructure and did not benefit from investment in roads and rail during the Celtic tiger period.

Ireland West Airport Knock is strategic infrastructure in which has been earmarked for growth. State-aid rules present an impediment to its expansion, however. I understand a temporary arrangement in respect of state-aid rules was in place in 2009 which allowed us to deal with the banking crisis. Could we do something along these lines again and invest in infrastructure in disadvantaged areas to stave off the negative effects of Brexit and address infrastructure deficits? This would allow us to fund Ireland West Airport Knock without seeking the European Commission's approval every time the airport requests additional funding. I understand the maximum percentage of funding that can be provided is 90%, whereas Ireland West Airport

Knock needs 100% funding in certain areas. Under current rules, the airport can only be offered assistance in safety and security measures, which precludes capital investment for expansion. I ask the witnesses to address the issues I have raised, especially my final point.

Senator Gerard P. Craughwell: I thank the witnesses for attending. My concern with respect to Brexit is in finding out what solutions the witnesses may be able to offer. The problems associated with Brexit have been well rehearsed in the public domain and the discussion appears to be focused on whether it will be a hard or soft Brexit. In my view, it will be a somewhat disorganised process in which some solutions may be negotiated at an early date, while it may prove very difficult to negotiate solutions in other areas. My focus, therefore, is on what solutions the witnesses are in a position to offer to the committee or the Government.

Does the Central Bank have all the expertise it requires or does it need to employ or acquire additional expertise in specific areas? If additional expertise is required, has the Central Bank sought Government approval to employ additional staff and, if so, what has been the Government's response?

The areas highlighted by the witnesses include materials manufacturing, agrifood and tourism. Agrifood and tourism will be two key areas in terms of the downside of Brexit. Has the Central Bank modelled different scenarios and solutions to the problems that will arise based on certain outcomes? If so, does it have a best and worst case scenario, particularly in agrifood and tourism?

Reference was made to the possibility of a 30% fall in exports to the United Kingdom, which is a significant figure by any measure. Michel Barnier and various other people to whom we spoke in Brussels indicated that the Commission would take a favourable view of requests for support for market diversification activities and the construction, if one likes, of better infrastructure with European Union partners, for example, the establishment in the south east, perhaps in Waterford, of a major port that would provide a direct link to Europe, thereby precluding the need for goods and people to traverse the United Kingdom. Has the Central Bank examined this possibility, including construction costs and the savings that would be achieved in respect of tariffs levied on entering and departing Britain?

I am particularly concerned by the statement that exports could decline by 4% overall. The documentation is very clear in this regard. However, the figure masks a very serious impact on companies that are almost married, as it were, to the UK market. We have been somewhat lethargic in developing markets in countries whose languages we do not speak. England has always been a safe bet. Has the Central Bank explored this issue? Several Irish suppliers in the agrifood sector are recognised worldwide. However, we also have many small indigenous companies, including one-man and two-man operations in certain niche areas, which export solely to the United Kingdom. A 30% decline in trade with Britain would effectively knock these companies out of business. EU rules limit the supports that can be provided to such companies. Has the Central Bank examined which rules need to be relaxed to provide the supports that would be needed during a transition period?

I am more interested in solutions than problems because the latter have been so well rehearsed that the dogs in the street are barking about Brexit. That discussion does not give us an idea as to where we are likely to go and the Central Bank appears to be the only organisation that is focused on the impact of Brexit on the entire economy, sector by sector. I thank the witnesses for their time. I am sorry for throwing all these questions at them.

Chairman: I thank Senator Craughwell. We have 20 minutes remaining with three more speakers indicating and the responses from the Central Bank. Let me repeat that I ask all Senators to keep their contributions to questions, and ideally, to limit them to one to two minutes. That applies to everyone and I am not just picking on the most recent speaker.

Senator Mark Daly: I thank the witnesses for their presentation. Ireland is in the unfortunate situation, and the Central Bank in particular, of suffering from a post-banking crisis stress disorder. Unlike other European member states, having gone through a banking crisis and regulatory issues around it, the human reaction is to over-regulate. That happened and was due to a lack of oversight and regulations, issues with which the officials are well aware. As a result, we now are seen to be more cautious than anybody else.

How many applications, if any, has the Central Bank rejected? My concern is that companies will not even bother to apply but will think Ireland is far too regulated at this time. When people do not apply, we do not know how we are doing compared with other countries. Is there an analysis of how many financial service companies in Britain have made applications to other European countries and whether they made multiple applications? Will they hedge, as they would in any other financial situation, and apply in Ireland, Frankfurt and Luxembourg? While I acknowledge the Central Bank does not have a role in attracting companies, the critical question, which is directed at Mr. Mark Cassidy, is whether, since the task force was established and especially since Brexit, the Central Bank has introduced reforms to make Ireland more attractive. That is the only thing the Central Bank can do that is within its gift. Has the Central Bank made changes to itself since Brexit to make it more attractive? If the Central Bank has not done that, that is of concern to members. If the Central Bank has not done it, is it planning to do it?

Senator Paul Daly: A number of the questions I had intended to ask have been covered. My question is on similar lines to that of my colleague, Senator Mark Daly. We have not fully emerged from the major banking crisis and now Brexit has been sprung on us. Recently I used the analogy of a carpenter with the ingrown toenail who hits his thumb with the hammer. He soon forgets the ingrown toenail but it has not been cured or gone away. His focus comes on to his throbbing thumb. Is there a possibility of that scenario playing out here? While Brexit is very important and has to have a major focus, could it take all our focus away from other areas that still very much need remedial care as we have not fully turned the corner? I seek the views of the witnesses from the Central Bank, not only from its perspective but possibly whether we as a nation, have a tunnel vision on Brexit. What potential and possible fall-off could there be because of it?

Chairman: I thank members for their contributions. I will now revert to Dr. Fagan and his colleagues.

Senator Michael McDowell: I have one tiny question. In respect of the depreciation of sterling, is that regarded as permanent or semi-permanent or is it something that might disappear? Have the witnesses any views on that?

Chairman: I thank Senator McDowell.

Dr. Gabriel Fagan: I thank the Chairman and Senators for those questions. I propose to hand over to my colleagues and Ms McMunn can address some of the questions related to authorisations and related matters.

Ms Mary-Elizabeth McMunn: I thank Dr. Fagan. I thank the Chairman and Senators for their questions. I will group a number of questions together as they are variations on a theme.

I will deal with the position around conservatism and the questions on the other jurisdiction in terms of attracting their share of financial services companies.

From our perspective, we are very conscious of the potential for companies to move to Ireland as a result of Brexit. As we have outlined in our opening statement, however, we do not have a role in attracting businesses to Ireland. That promotional role has been explicitly removed from our mandate because it was felt that it compromised our authorisation and supervisory stance.

Let me take a step back. Central to the concern from our perspective is implementing our mandate, which is about financial stability, the protection of customers and that there is a well-functioning and well-regulated financial system. For any authorisation process, one must think in terms of where one is starting from. We are starting from an understanding of what is the business that is being presented to us; what are the risks associated with that business and how those risks are managed and mitigated. Our starting point is not what is the most conservative position we can adopt in respect of this applicant firm. It is about understanding the risks of that particular business. We also seek to ensure that customers are very central to the business proposition. From a financial stability perspective, we would stand back and ask what would be the potential harm to the citizens, to the economy and so on were this firm to fail. From that perspective, the Governor mentioned at our press conference on the annual report yesterday that it was his ambition that regulatory issues would not play a role in decisions around relocation. Many different factors go into influencing the relocation of a firm to a particular jurisdiction and I can go into those. We are not proposing to comment on individual firms' specific relocation decisions to various different jurisdictions because as I said, a range of factors influence where firms chose to locate.

When we look at supervision, the EU has a harmonised approach to regulation of financial services and our approach to authorisation is firmly embedded in the European system of financial supervision. What is important from our perspective is that regulatory authorities ensure that any migration of those firms does not lead to any disjointed or fragmented supervisory system. Regardless of where an entity seeks to locate, firms should expect a rigorous application of both authorisation standards and ongoing supervision. We are actively engaged at a European level with our colleagues in the ECB and in the other supervisory authorities to ensure that UK firms' Brexit-related decisions reflect a consistent approach across the EU. We have referred in our opening statement to some guidelines that have been issued by the ECB recently with regard to frequently asked questions, FAQs, about what one should expect in the context of a bank, for example, relocating to the euro area. It also sets out supervisory expectations on a number of key issues and we are very supportive of that. Other European authorities are moving in the same way.

I will deal with Senator Paul Daly's point on specifically taking away the focus from existing areas. There is a significant ongoing effort across the organisation on Brexit-related activity. We also continue to fulfil our mandate and I will speak specifically to supervision from an ongoing supervisory perspective. We are not taking the focus off our existing mandate in respect of ongoing supervision, intrusive supervision, enforcement and so on. While we have an incumbent population for which we need to seek to do our job, perhaps specifically in the context of the authorisation processes and the Chairman's direction on time, the most important perspective from our side is that we are keen to be very transparent about the process. We regulate more than 10,000 financial services providers in Ireland. We have alluded to the sectors in our opening statement. The nature of any application is very particular to the type of entity that is presenting itself. That flows directly through to the timeline around authorisation. For example, while the principles of our authorisation and gateway roles are the same, their practical implementation is very particular to the type of application on the table. If, for example, we were considering a qualifying investor fund, the authorisation could be turned around in a matter of days. A banking licence, however, is an entirely different proposition and the SSM regulations speak to at least six months in the context of turning around a banking application but a decision must be made within a year.

We publish six-monthly reports on our regulatory performance against standards we set for ourselves regarding authorisation timelines so we measure ourselves against timeliness standards. This outlines not only the number of applications that are live, but also how we have performed against our own protocols for meeting them. The last report in this regard was published in February. It dealt with the period from July to December last year. The next report is due in the summer and will cover the period from January to July. Regarding authorisation, it is important to say that our goal is to be engaged, open and pragmatic and that it is a rigorous process with the firm. However, as we recognise, particularly for complex applications, that firms may need some help, we have a pre-application process whereby we engage with institutions to give them some assistance. As for what a completed application might look like and what might be the key areas one might need to address, without trying to evade the question, it is very difficult to give an indication as to the time it takes to authorise a firm because it is very particular to the type of authorisation with which one is dealing.

We have received a large number of inquiries since the referendum and they have been pretty steady. What we are starting to see with that pipeline activity is that it is migrating as Article 50 has been triggered but also as firms are starting to narrow down their own options and make decisions about possible relocation choices. We expect much of that activity to take place over the rest of 2017. The difficulty - and the Governor mentioned this yesterday - is that when one talks about numbers of inquiries, some are very marginal in nature and some require quite extensive engagement with us. Both cases are represented as a single number so it is often not useful to talk about the number of inquiries in that regard. In addition, as I think alluded to by one of the Senators, many firms are making inquiries across a number of jurisdictions at the same time and there are reasons for not pursuing an inquiry further. In some cases we do not know and, in others, it can be just as the firm gets a clearer understanding of the implications of Brexit for its own strategic planning. There can also be some of the additional factors - infrastructure, culture, language - that are outside of regulation and supervision. What we can say is that we are engaged with firms at all stages through that process and we have been very open to doing so. In addition, we will publish the number of applications. They will come through in the summer because they will be linked to our performance against the standards. However, there could be a number of institutions that might reflect a small amount of financial services activity. There could be one application that is very significant in terms of its financial services presence, so again, there is the difficulty in outlining a few numbers. However, to return to one of the Senator's other questions, we do expect, given our engagement with those firms, that a good proportion of those will come through to actual live applications. It is very difficult at this stage to be definitive about what that proportion is for some of the factors as outlined but also because many of the firms have not made decisions at this point in time. However, given our engagement with the firms, it seems likely they will translate into live applications.

Senator Mark Daly: Ms McMunn raises a question. Because of the financial crisis, the Central Bank's rules were changed so that it is not out there championing the cause of Ireland being a location for financial services investment and that has changed the bank's remit. How many other central banks in the EU have the same standard, the same rule, that they are no longer advocates and that they just process the application and that is it? This goes back to my earlier question to Mr. Cassidy. Is that making us uncompetitive? If the Central Bank of Luxembourg is out there championing Luxembourg and the Central Bank of Ireland is not championing Ireland, we had better change that rule because if we do not, we will lose out.

Ms Mary-Elizabeth McMunn: To answer the Senator's question directly, I do not know the extent of comparability across other central banks that are responsible for regulating and whether that forms part of their mandate or otherwise. I am not sure.

Senator Mark Daly: Perhaps Mr. Cassidy could answer the question. From a competitive point of view, this is a fundamental issue for Ireland for examination by the task force. If other central banks are not only being regulatory bodies but also are actively engaging on behalf of their countries, we will not be able to attract financial services. We will be looking at this in two years' time wondering why we did not get these guys. It will be because Luxembourg was championing its banks, Germany was championing its financial services centre and the Netherlands was championing its own but our Central Bank was not doing likewise. That is not the Central Bank's fault but that is the rule in place at the moment and it is one of the regulations I am talking about that needs to be changed.

Ms Mary-Elizabeth McMunn: With all the authorities that are linked to the same European standards, there should not be any loosening of standards simply to attract industry-----

Senator Mark Daly: I am not saying that. We have changed our standards. That is the financial crisis and post-traumatic stress disorder I am talking about. We changed our standards because the Central Bank was out there looking for business. This is a hangover from the financial crisis that will now affect our performance. I suggest that the task force should have answered the question when it was examining the opportunities of Brexit. Was this one of the things it examined? I am not talking about the standards; I am talking about the basic rule of central banks in other jurisdictions. Are they out championing their financial services? We do not know and we need to find out. They are out championing their causes for their financial services sector and we are not allowed to do so for ours. If that is the case, we need to find out and we need to change our rules.

Dr. Gabriel Fagan: Regarding the promotion of Ireland as a location for financial services, we already have in Ireland very effective organisations such as the IDA-----

Senator Mark Daly: I understand that.

Dr. Gabriel Fagan: -----that are covered by that-----

Senator Mark Daly: Are other central banks able to champion their financial services? The Central Bank was doing so previously, so obviously EU regulations allow for it. Are other central banks doing it where we are not?

Dr. Gabriel Fagan: We do not know that but it is very important to realise that it is particularly in banking that there is the Single Supervisory Mechanism. There is essentially a more or less fully harmonised approach to banking supervision across Europe. Therefore, an individual competent authority in another country cannot offer a better regulatory deal than it will get in Ireland. It is very important to recognise that this is part of a Europe-wide framework. It is very strong in banking. There is a single institution. However, even for the other sectors of finance - for insurance, funds and so forth - there is a kind of common set of standards applied.

The Senator makes a very interesting point. There are other dimensions that countries can exploit. For example, some countries are talking about having lower tax rates for British bankers that come to their jurisdictions. That is not a supervisory matter; that is kind of a governmental matter. A range of other things are being done, for example, changing the language in which forms are written and so forth, which makes it more attractive to the UK. However, many of these are outside the realm of supervision and the supervisory authority. They constitute government action. I do not think it is fair to say Ireland is not being promoted; it is being promoted by the IDA and other institutions.

Senator Mark Daly: I know, but there is a fundamental difference-----

Chairman: I do not think we want to dwell on this too much.

Senator Mark Daly: We are looking for solutions to problems. This comes back to the task force. What has been highlighted here is that we have changed our rules regarding the Central Bank promoting Ireland as a location for financial services. If that does not change - and obviously, other European countries have not changed - we need to find out who they are and whether we are going to change it. If we are not, we are at nothing. I agree with Dr. Fagan that other State agencies are out there championing the cause but if other central banks in Luxembourg and elsewhere are championing their financial services centres and the Irish Central Bank is not allowed to do likewise, it needs to go to Government and say the reason we are not going to get them is because we are hamstrung. If this does not change, we will be back here in two years time saying, "I wonder why we didn't get those?"

Mr. Mark Cassidy: A number of questions related to the nature of the new trade deal and the impact it may have on tariffs and particular sectors. It is reasonably fair to say that in terms of trade arrangements, it would suit all parties in the negotiations to have reasonably free trade arrangements. The effects of that would certainly be much more benign for Ireland, the UK and Europe in terms of trade and investment links. Of course, this does not mean that this will be the eventual outcome. I think this depends on the other factors in an overall comprehensive deal so we cannot rule out the possibility that the outcome will be the more unfavourable one of trading goods reverting to WTO arrangements. In the more benign scenario, we would have either no tariffs or relatively low tariffs on trade between Ireland and the UK. In that case, many of the effects would come through the impact on the exchange rate - I will come back to the permanence of that in a moment - and the fact that the economic outlook for the UK might be slightly lower over the short and medium term than it would be otherwise. Those effects would be much more short term and limited for Irish exports so while I am not ruling out the fact that some sectors may be affected, the economic impact of a free trade arrangement or close to free trade arrangements would be much more benign.

In respect of the more unfavourable situation whereby trade in goods reverts to WTO conditions, we refer to no tariffs on services possibly because the WTO covers goods. It is much more difficult for some reasons that have been mentioned to impose tariffs on services but, over time, the regulatory requirements for services can differ across countries which can impose the main restrictions on trade in services, very notably in the financial sector. In terms of trade in goods, a very useful and granular ESRI analysis looks at what sectors and countries could be most affected. It is important to know that the impact on a particular country does not just depend on how much of our trade goes to the UK but the sectoral composition of that trade. Some notable facts in this regard include the fact that tariffs on agricultural and clothing products, particularly agricultural products, are at the highest end of the range. This is largely because trade in goods under the WTO rules tends to be trade as a percentage of the value but, very significantly, trade as a percentage of the weight of the good. Often these goods are among the weightier goods traded. Ireland would fare unfavourably because of our sectoral composition of the goods. In fact, the ESRI analysis suggest that the average tariff on Irish exports could be between 10% and 18%. That compares with the European average of closer to 6% so we are talking about significant effects in addition to the other effects that might arise because of the exchange rate and any downturn in the UK economy. Clearly, while a number of sectors, including tourism and computer services, would be significantly affected, those most affected would include those where the tariffs are also particularly high in addition to the other effects.

With regard to the exchange rate effect, it is fair to say that the value of the exchange rate that currently pertains reflects the expectations in the market regarding what a future trade deal might look like. If the adverse scenario materialises, a further weakening of sterling compared to the euro may be expected. One does not like to predict exchange rates too far into the future but some weaker level into the future may be expected. If more favourable outcomes materialise, some closing of the change that has already occurred may be expected. With regard to exchange rates, economies tend to adjust to those changes over time. It does not mean that there will no short-term effects. Services will also be affected by the exchange rate. For example, the tourism sector would be mainly affected by the exchange rate without tariffs on goods. Over the longer term, tariffs might be the more important effect.

I am afraid we are not privy to the type of special deals that may be available. Those more directly involved in the negotiations over the next two years would be better able to answer those questions in terms of whether special deals in terms of transition arrangements reflecting Ireland's closer trading links with the UK could be put in place but it is certainly very welcome to hear European and UK representatives highlight the importance of the Irish trade and economic links with the UK.

In respect of issues and authorisations, I cannot really add to what Ms McMunn has said. There have been many initiatives within the banks in terms of our engagement with firms, the numbers involved and ensuring we have the appropriate skills. I am not aware if the mandates of central banks elsewhere contained or have contained the requirement to promote the financial services industry. What other banks are doing on the ground is very difficult to ascertain and we are not familiar with that. The supervisory and authorisation activities that have taken place in the Central Bank have been highlighted by Ms McMunn. Of courses, we are interested in other policies. We have a role in terms of providing our views publicly in respect of macro-economic stability and the importance of maintaining stable public finances to protect ourselves against any economic shocks that may be coming down the line. Ensuring we can maintain flexibility for any additional public expenditure requirements that come down the line is particularly important. We must also be aware of the potential shocks to the economy either via international financial markets or any volatility that may emerge in residential or commercial property markets. In that regard, we have an important financial stability mandate and in terms of policy measures taken, have developed a comprehensive macro-prudential policy framework to reduce the risks of cyclical financial shocks occurring and to protect or enhance the resilience of the economy and financial sector against any shocks that may come down the line, including but not restricted to those related to Brexit. I am not sure whether Dr. Fagan has anything to add.

Dr. Gabriel Fagan: Mr. Cassidy covered most of the issues that have been raised. In terms of the special arrangements, I would add that, as Mr. Cassidy has highlighted, it is very important that both the European and UK authorities have signalled their recognition of the special nature of the problems facing Ireland so there is quite a lot of goodwill there and an awareness of the problems. That is very welcome. There may be scope to achieve some adjustments in terms of special programmes for Border areas and stuff like that - all sorts of arrangements that could be considered. The goodwill seems to be there.

In respect of the fiscal space, as Mr. Cassidy highlighted, despite the considerable improvements in the public finances we have seen since 2012, we are still in a fiscally vulnerable position. The debt is high. It may be flattered by a GDP number which is very large but when one uses a more realistic measure, one can still see that the public finances in Ireland are relatively vulnerable to shocks so we should be very cautious in saying that because of Brexit, we need to relax in some sense in terms of the fiscal programme for the country. That might be going in the wrong direction.

What the Central Bank has done has been raised. It is important to state that we have increased considerably the amount of resources we have in the bank to deal with Brexit-related issues such as authorisations and are planning to increase them considerably. The bank is an independent organisation so it does not need permission from the Government to increase its staff. It does that in the context of its own board - the Central Bank Commission - which makes the decision. That has been done. The budget for 2017 envisages quite a significant Brexit-related increase in staff mainly in the area of supervision. The basic point is that there will be no constraint caused by lack of resources in the Central Bank for financial firms to locate in Ireland if they wish to do so.

Senator Michelle Mulherin: I asked about a temporary framework.

Chairman: If the Senator would allow me to speak, I will address this. I am not saying she cannot speak. I shall allow both Senators back in very briefly for a 30 second intervention, just for follow-up questions as we are very pushed and against the clock. I will start with Senator Daly as he indicated first and then Senator Mulherin.

Senator Mark Daly: Has the Central Bank changed any of its regulations in its own organisation as a direct result of Brexit? Are there changes to which the witnesses can point and say that the rules have been changed in order to assist Ireland as a result of Brexit?

Senator Michelle Mulherin: I repeat my question about putting in place a temporary framework for state-aid rules to give more flexibility for investment by the State in infrastructure in disadvantaged areas. My initial question was not answered.

Dr. Gabriel Fagan: I apologise for the second point. There were a lot of questions and we could not necessarily address each question. I am not sure that the specific point raised by Senator Mulherin is within our area of competence. That is more an EU legal issue. It could be said, however, that there is a lot of goodwill towards Ireland and there is recognition that there are problems, as highlighted by the Senator, specifically affecting Ireland. I believe there would be scope within the interaction with the EU to identify possible programmes that could alleviate those problems, but it is not really a matter for the Central Bank.

With regard to what we have done, it is important to recognise that we are now part of a broader EU framework. The regulation of banking supervision and the rules are all part of the Single Supervisory Mechanism so we are not really in a position to change our rules. It is not like the old days when we were fully detached from the rest of Europe and we could make our own rules. Now we are part of a broader European framework so it is not possible to do that.

On the issue of promotion, there is very little scope for any supervisory authority anywhere in the EU to attract business by changing or by adopting a lax regulation. Regulation and supervision are now harmonised across the EU. There are other dimensions by which countries can compete such as in taxation or promotion. IDA Ireland is actively promoting Ireland as a location for financial services. It is not right to say that because the Central Bank is no longer in this business that Ireland is not being promoted and that other countries are doing the same. Countries cannot compete on the basis of supervision and regulation; we are now within a harmonised framework.

Chairman: I thank Dr. Fagan. I thank all the witnesses for their excellent responses to the vast range of questions from all colleagues. I thank members for their contributions.

Engagement with Enterprise Ireland

Chairman: I welcome Mr. Kevin Sherry, Mr. Garrett Murray and Ms Anne Lanigan from Enterprise Ireland.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable. By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. If they are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable.

I invite Mr. Sherry to make his opening remarks.

Mr. Kevin Sherry: I thank the Chairman for the invitation to attend this morning. I am joined by my colleagues Mr. Garrett Murray, the department manager for policy and government relations, and Ms Anne Lanigan, the department manager in our Brexit co-ordination unit.

Enterprise Ireland supports indigenous companies in every region of Ireland to start and scale their business, to innovate and to win business in international markets. We focus on the manufacturing and internationally traded services companies, which are a critical source of existing employment and job creation in every county in Ireland and are spread across a wide range of sectors.

On 9 January 2017 Enterprise Ireland announced that during the driving enterprise, delivering jobs strategy over the period of 2014-16 - our three year strategy period - 45,592 new jobs were created by our client companies. This brings the total number of people employed by companies supported by Enterprise Ireland to 201,108. This is an all-time high for the agency. It is the first time we exceeded 200,000 jobs. In 2016, which was the last year of that strategy, a total of 19,244 new jobs - full and part-time - in Enterprise Ireland supported businesses were created. Almost two thirds of these new jobs, 61%, were outside Dublin, and all regions recorded increases in employment. This translates into a net increase of 9,117 jobs for 2016, taking account of job losses.

The contribution of Enterprise Ireland client companies to the domestic economy is very important, particularly from a regional perspective, as it sustains over 300,000 direct and indirect jobs. Enterprise Ireland client companies' exports were €20.6 billion in 2015 and we are currently compiling the 2016 export figures. The UK delivered the second fastest growth rate in 2015 at 12% and the food sector accounts for half of those export figures to the UK at €3.7 billion. The total spend of Enterprise Ireland clients in the Irish economy across payroll, goods and services purchased, reached €23.7 billion in 2015. Enterprise Ireland has set a €22 billion export target for 2016. The results of our annual business survey 2016 will be finalised in the near term.

Exports to the UK as a proportion of our total client exports declined from 45% in 2005 - a decade ago - to 37% in 2015, as more of our client companies have diversified their export strategies into northern Europe, the USA, China and the Gulf region. We expect this trend to continue. Supporting clients to diversify their exports while also growing exports in existing markets including the UK - our nearest market - has been a central pillar of Enterprise Ireland strategy for over a decade. In 2015 there were 1,476 Enterprise Ireland client companies that recorded exports to the UK and between them these companies employ some 100,000 people. This represents half of the total employment of Enterprise Ireland clients. The sectoral breakdown of these 1,476 companies is as follows: food at 15%; ICT and international services at 40%; and industrial, life sciences and consumer at 45%.

Irish exporters are significantly impacted by Brexit and over 600 of the 1,476 companies generate over 20% of their turnover from the UK market.

It is expected that the UK will remain the largest market for Irish exporters in the short term. Enterprise Ireland's focus on supporting our clients to sustain and grow exports in the UK and in other established and high-growth markets will continue.

In January this year, we published our strategy for the period 2017-20. This strategy was specifically developed in the context of Brexit and focuses on supporting clients to both build scale and expand reach, in other words, to diversify. The strategy sets ambitious targets out to 2020 including to sustain and grow jobs in Enterprise Ireland client companies to in excess of 220,000 and €26 billion in exports. The objective is that at least a 50% growth in exports would be outside the UK. We have set a target of increasing the annual total spend in the economy by Enterprise Ireland client companies to €27 billion, as well as increasing their direct annual research and development spend by 50% to €1.275 billion.

The UK vote in June 2016 triggered a period of uncertainty for Irish business and this has continued. The primary cause of uncertainty since then has been currency volatility. However, in the medium term, the outcome of the negotiation process and the new trading structures that will exist thereafter may provide further challenges.

The devaluation of sterling impacts differently on companies in different sectors in different ways; it is not uniform. Some companies are hedged through their banks and others are naturally hedged, so Brexit impacts on all sectors in different ways. What is clear is that the devaluation of sterling and any other impacts of Brexit will not be temporary and will require a strategic response from Irish exporters and from Enterprise Ireland.

The challenge is significant in terms of exchange rate volatility. We have been here before in 2009 when the euro and sterling were near parity. Irish companies, while severely challenged during that period, took actions that assisted them to respond to the movement and overcame that challenge.

Enterprise Ireland's focus in the immediate aftermath of the vote in June 2016 was to set up a helpline and directly reach out to our clients. Since then we have taken many actions including working with clients, company by company and sector by sector. We have developed a new guide to exporting to the UK, and a webinar on currency volatility and hedging. In addition, we have promoted global market opportunities in the media through our global ambition campaign. We have prepared a guide to exporting to the UK, which will continue to be a very important market.

We have published a revised schedule of trade and investment missions for the second half of 2016, which we implemented, and published a trade and investment mission schedule for this year involving over 145 trade missions and international trade events.

We have worked closely with local enterprise offices through our Brexit and competitiveness units to support LEO clients. We have worked through our parent Department and other Departments to ensure that any issues raised by our clients are highlighted in the policy system and are addressed. In addition to many other actions undertaken, we have refined and promoted our own client offering to support client growth strategies.

Enterprise Ireland has advised, and will continue to advise, our clients to prepare for a hard Brexit. That is our advice, but if it is better than that, it will be great. Companies are alert to the challenges posed by Brexit, but not all of them are taking action as yet. Our focus continues to be on supporting companies on a one-to-one and on a sector-by-sector basis to enhance their competitiveness and capability and build on their success in existing and new markets.

Enterprise Ireland is focusing on four strategic areas of action: innovation and research and development; competitiveness; financial management; and expanding reach, in other words, diversification. We are working systematically with clients through our client engagement model to support their priorities and actions. Our overseas offices will continue to work with clients in a range of market areas focused on winning business. A focused eurozone strategy will be launched in the coming weeks. On 31 March, Enterprise Ireland launched our Brexit SME scorecard, a new interactive online platform which can be used by all Irish companies to self-assess their exposure to Brexit under six business pillars, where they have not already done so. Based on the answers those companies have supplied, the scorecard generates an immediate report which contains suggested actions.

By completing the online questionnaire, the Brexit SME scorecard will provide companies with an assessment of their preparedness. The tool is a starting point for SME management teams looking to develop an action plan to help mitigate risks and leverage opportunities which may arise from Brexit. While the SME scorecard is available to all companies, Enterprise Ireland client exporting companies that utilise the Brexit scorecard will then be able to engage with the agency's experts both domestically and through the overseas offices in global markets. Enterprise Ireland will provide funding up to the value of €5,000 to exporting clients to support the development of a business action plan. Enterprise Ireland will work with those companies on a one-to-one basis to support the implementation of the plan. The roll-out and marketing of this initiative is being complemented by a schedule of regional events. Over 420 companies have already completed the Brexit scorecard.

Enterprise Ireland will continue to directly implement our strategy, Build Scale, Expand Reach 2017-2020. We will work closely with others, including other governmental and non-governmental bodies to support our clients to overcome the challenges of Brexit and build on their ambitious strategies to sustain and create jobs throughout Ireland.

Chairman: Before calling on my colleagues, I will ask a brief question myself. Mr. Sherry referred to helping EI's clients to seek and target new markets. What are the ideal target markets and where should the Irish economy be looking in order to expand post-Brexit, either through potential new EU trade deals or in markets where we have an existing footprint but where there is also more scope in which to develop?

Senator Paul Daly: I am aware of the time constraints so I will be brief. In the past I have had dealings with Enterprise Ireland. When it comes to exports, its criteria for SMEs are off-island and it does not tend to consider Northern Ireland. A company with which I was involved did a lot of business in the North and has suffered a lot through currency exchanges. However, when we knock on Enterprise Ireland's door it is not considered an export because it is not off the island. In light of what Mr. Sherry has said, will he plan for the worst and hope for the best? In planning for a hard Brexit, that is, the possible reintroduction of customs posts at the Border, would Enterprise Ireland have a strategy for supporting companies that do a lot of cross-Border business?

Senator Joe O'Reilly: I welcome our guests and agree with Mr. Sherry's strategy that it is good to prepare for a hard Brexit, while hoping that it will be otherwise. We very much hope that it will be otherwise, but it is nonetheless important to prepare for the worst. Coming from the Cavan-Monaghan region I am concerned about the implications of Brexit for a number of enterprises that Enterprise Ireland supports there. The implications could be devastating. I was reminded recently that Lakeland Dairies, a major milk processor in our area, sources quite an amount of milk north of the Border. Were customs duties and tariffs to come into play, it would inevitably be forced to create a new plant north of the Border with a dislocation of jobs in the South and extra levies on farmers to support that plant. If not, its suppliers would have to cope with customs duties and tariffs. That is the kind of dilemma that is being presented in our area.

I am interested in Mr. Sherry's figure that 225 companies or businesses with which Enterprise Ireland is involved are in the food sector. I suspect many are in the Border region. Will Mr. Sherry comment on the number in the Border region? Will he outline what sort of practical supports Enterprise Ireland can continue offering? What would he recommend to the Government in terms of support for these enterprises in the lead-up to Brexit and post-Brexit? The obvious direction is the expansion of markets, and one of Enterprise Ireland's objectives is to achieve a 50% growth in exports outside the United Kingdom. I echo the question put by the Chairman. Where does Enterprise Ireland see the best possible locations to achieve this growth?

Is it the case that because of our fixation on business to China, and it is a market with extraordinary potential, nobody questions the efficacy of that pursuit? Taiwan has a population of 24 million and is a prosperous and growing economy. We may be missing that market in our anxiety not to upset the Chinese. I understand that may not be the case for other European countries who trade freely with Taiwan, still trade with China and have a gateway from Taiwan to China. It is only one theatre of operations. I would be interested to learn where Enterprise Ireland would site the expansion of our exports, particularly in the food sector. I see the food sector taking the big hit in the Border region.

A point I made to a colleague is that we will not be able to replace the jobs in the small food enterprises as it will be difficult to locate other jobs in the small towns and villages in which these enterprises are based. This exacerbates the problem.

Would Mr. Sherry comment on the currency and how sterling impacts on the mushroom industry? The mushroom industry came under major threat from the sterling factor. What specific efforts can be made for that industry? Enterprise Ireland works sector by sector and company by company. My experience as a public representative of making introductions and dealing with Enterprise Ireland and firms that are working with Enterprise Ireland is very positive. I have heard nothing but good things.

Research and development are critical to deploying exports elsewhere and to diversification. Will Mr. Sherry expand on that and on how we can achieve more?

Chairman: I thank Senator O'Reilly.

Senator Gerard P. Craughwell: I thank the witnesses. Their presentation is an excellent example of an organisation that is up and running and is ready to meet the challenges of Brexit. I congratulate Enterprise Ireland on that.

An issue I have raised with every group I have met during our meetings on this topic is the issue of a hard and soft Brexit. It will be an extremely disorganised Brexit rather than hard or soft. Some elements may be hard and others soft and some elements may take years to resolve. That is a particular problem for me.

I congratulate Enterprise Ireland on the scorecard. Organisations working through Enterprise Ireland have a place to go to which will give them some indication of where they stand as they move forward.

Does Enterprise Ireland have sufficient resources to provide all the supports it needs? Is there anything it wants from Government or from the Oireachtas which would ease the work it is doing or support it in a better way?

In respect of market diversification, the figures Enterprise Ireland has given for our reliance on the British market are generally macro figures. When we get down to the micro level, Brexit may be fatal for some organisations. A question that was put to me some time ago was the case of the small artisan or single product producer, such as a husband and wife team working on the production of cheese which they export to the United Kingdom only. They do not have the resources to put a marketing organisation in place. Does Enterprise Ireland see a need for a separate marketing group to provide marketing for small organisations that cannot provide for marketing? I am not sure how it would work.

At present, because of the Border, we have raw materials coming from one part of the jurisdiction into another jurisdiction with some processing taking place and the product going across the Border to be completed. That would seem to be a problem if tariffs were to apply on the way in and on the way out. My constant plea is for solutions. Has Enterprise Ireland a solution that we can offer to Michel Barnier and the various other negotiators that will help us overcome those types of problems? We cannot have a situation where we are paying tariffs on both sides. We also have the ridiculous situation where a farmer has cattle in Northern Ireland in the morning and in the South in the afternoon. That does not bear thinking about.

I thank the witnesses. Its presentation shows that Enterprise Ireland has its foot on the pedal and is working hard. I congratulate it. I am very pleased with it.

Chairman: High and worthy praise.

Senator Michelle Mulherin: I thank the witnesses for attending today. It is very clear our indigenous companies dealing with Enterprise Ireland are in a different situation from the foreign direct investment companies that are not going to have the same adverse impact arising from Brexit. The indigenous sector is more highly dependent on the UK market and faces a significant fallout.

Enterprise Ireland has described one of its strategic areas of action, namely, innovation and research and development. I believe it is the case that there is more innovation, research and development in foreign direct investment companies than in indigenous companies. I see that in a comparison of Irish indigenous companies with indigenous companies in other countries, we are falling behind in research and development. Why is there not the same level of interest or activity in research and development? Is it to do with cost?

Does Enterprise Ireland match education and training needs of citizens with the needs of the companies it attracts to Ireland? To what extent is Enterprise Ireland being asked to engage with educational institutions? I am thinking in particular of the IT colleges where a recent study shows that the ambition is that there would be more of a correlation between the needs of business and the types of courses offered. It also shows that the institutes of technology would be an integral part of economic growth for these companies. Is this happening?

Do the staff of Enterprise Ireland meet boards of management, governing bodies or departments in the colleges? Is it pretty specific or is it a high level notion? It is important to grow the institutes of technology and also to grow the businesses.

How does the number of start-up enterprises in Ireland compare with those in other similar countries? The view is that we are not seeing the same number of start-up businesses or entrepreneurship in our indigenous sector.

I know that Enterprise Ireland has a drive to scale up companies, but there is also the problem that many Irish companies sell out once they get to a certain point. If the business continues and grows, that is good and well, but if it sells out and goes somewhere else, that is not desirable. What does Enterprise Ireland do to counter that?

Senator Michael McDowell: The witnesses from Enterprise Ireland are most welcome and I thank them for attending today. One of the issues in relation to trading in goods between Ireland and the UK was mentioned here by the former Taoiseach, Mr. Bertie Ahern, namely, the possibility of having a common trading area. Indeed, Senators Mark Daly and Joe O'Reilly have mentioned the possibility of special arrangements in respect of cross-Border trade. If there is to be a special economic zone, either for Northern Ireland or for the whole island of Ireland, with special trading rights *vis-à-vis* the United Kingdom as part of the imaginative and flexible Barnier proposals, who is thinking about that? Is it the Department of Jobs, Enterprise and Innovation? Is Enterprise Ireland involved in a dialogue on that? Where in the Government is the thinking on that concept going on? Is it in the Department of An Taoiseach? Is Enterprise Ireland being consulted or being asked for input into the imaginative and flexible solutions that the former Taoiseach, Mr. Bertie Ahern, and various other people were talking about in terms of dealing with the island as an economic unit or having special arrangements with the United Kingdom? Who is actually working on that scenario or possibility? Is Enterprise Ireland being fully consulted on such matters?

Senator Mark Daly: Some of my questions are along the same lines. First, regarding what Senator Paul Daly said about not supporting companies that want to trade with the North, is Enterprise Ireland going to look at that issue? In terms of proposals from Enterprise Ireland on imaginative solutions which the EU is seeking, has the organisation looked at replicating or seeking to replicate the trading arrangements between West and East Germany prior to reunification? In that scenario, East Germany was treated, effectively, as a member of the European Community, without anybody formalising that. Could that be used as a precedent for a trading arrangement between the North and the South of Ireland?

Mr. Kevin Sherry: I thank the Senators for their questions. I will start with the Chairman's question about ideal target markets. Unfortunately, when we look at ideal target markets, it is somewhat complex in that we have to look at each individual sector and at individual companies to identify what might be the most appropriate growth markets. Different sectors have different dynamics so we have been working on it sector by sector. I mentioned that in 2015 exports to the UK grew by 12%. While we have not finalised our figures for 2016, growth certainly will not be at that level. The US grew in the same period by 27% and we would view the US as a very fertile and substantial opportunity for many companies in a range of areas including ICT, services, life sciences and medical devices. There is less of an opportunity for food except in terms of non-perishables like infant milk formula. It very much depends on the sector but we would certainly see the US as a substantial growth opportunity.

Irish companies have benefited from substantial and continuous growth in the Asia-Pacific market. We have seen substantial growth in China in the general area of food but particularly in the area of infant milk formula. Ireland exports a lot of formula to that market, where the demand is very high and prices are strong. We see substantial opportunities in that market for companies in the dairy area. We have also seen growth in certain parts of the Gulf region, particularly in the United Arab Emirates, in areas where Irish companies have products and services that are in demand in those regions. We are seeing growth in sub-Saharan Africa and South Africa in some sectors.

What we are doing is segmenting it, market by market, sector by sector. We must look closer to home for some of the sectors that are more vulnerable. One factor at play in that regard is the transportability of products. There are particular product areas that are very vulnerable because they are highly exposed to the UK and are not easily transportable. I am speaking here about areas like timber, construction products, pre-cast concrete and a whole range of other areas. Those companies are facing different challenges because it is not as easy to go into alternative markets. What we are doing for such companies is focusing very strongly on improving their competitiveness and also looking at investing in research and development to enable them to move up the value chain, in the sense of getting into areas of premium product where they can differentiate themselves. That is possible but it takes time and investment for companies.

There are substantial market opportunities for many companies. Some companies will be able to take their existing products and services and transport them into other markets. However, in many or even most cases companies will need to invest in modifying the product or service in order to make it suitable for the particular characteristics of the new market. In other cases, unfortunately, given the transportability of the products and their nature, opportunities in more distant markets, such as the US, the Gulf and Asia-Pacific regions, will be more limited.

Senator Craughwell asked if Enterprise Ireland has the resources it needs. Enterprise Ireland has been allocated an additional €30 million in the current year towards the activities it is undertaking, principally in the area of supporting companies in response to Brexit. We got an allocation of an additional 39 posts for which we are currently actively recruiting and we are bringing people on board specifically for that agenda. Obviously, we are in continual discussion with our parent Department about the deployment and optimisation of our resources. I will ask my colleague, Mr. Garret Murray, to elaborate on that point.

Mr. Garrett Murray: In terms of diversification, we are also launching a eurozone strategy in the coming weeks. Obviously, there is a currency benefit there and less of a risk and there is a very significant focus on that aspect. We have gone through it, company by company, sector by sector, to determine how we can maximise impact. In terms of resources in general, we asked for 39 posts and got them. In fairness, there was a dialogue involved and we had to outline what we needed the posts for and where the resources would go. What is important is that we are preparing competitiveness here before companies go overseas as well as supporting them within the market.

In terms of innovation, two of the new posts are related to Horizon 2020 and how we can maximise the European money that is available and link our SMEs into that innovation base to try to increase their innovative capacity. It is absolutely critical, in terms of product development, to focus on research and development. That is about Enterprise Ireland, as well as the companies, making it simpler for companies to apply for research and development funding and to understand it better. We have a significant focus on that area. We are looking at how our products can be marketed to our clients to make it easier for them to apply.

Senator Michelle Mulherin: Does Enterprise Ireland help companies with that?

Mr. Garrett Murray: Yes, absolutely. Our research and development committee sat this morning and looked at a plethora of SMEs who are looking for research and development funding that would already have been approved. Many of these are companies that are moving in a new direction and going from a service to a product or looking at new markets. It is key to our agenda and how we sell that to our clients is important. Brexit has made companies realise the importance of innovation.

Mr. Kevin Sherry: Just to expand on the research and development issue, we set ourselves a target of increasing by 50% the spend of companies on research and development. We have also repositioned our own offering to make it as simple as possible for companies to engage and to try to leverage to the maximum extent the investment that is being made in basic and applied research so that companies can access technology and investment in research that is being undertaken in the institutes of technology and universities. In that regard, one of the supports we provide is the innovation vouchers scheme where vouchers are, effectively, cashable with the institutes of technology to leverage the skills that are available. That is a widely used scheme and is part of our step-by-step approach to encouraging companies to go down that route. It is particularly aimed at those early-stage SMEs that do not have the same level of resources as larger companies. We are heavily engaged with the institutes of technology on the specific needs of companies and are working closely with them in the area of skills. A good example of that is in Limerick where we are working with the colleges on the availability of engineering skills. There is close collaboration on the available flow of skills. The collaboration between employers in the region is highly connected with the colleges there so that suitable graduates who are readily employable emerge from those colleges. It is a key agenda for us.

Senator Gerard P. Craughwell: I have some expertise in the area of institutes of technology. Does Mr. Sherry find they have sufficient resources in the research and development area? They have not been funded well in research and development. They have been excellent in delivering educational programmes but is there a greater need in the area of research and supporting industry? I do not know if it is a question Mr. Sherry can answer.

Chairman: Before Mr. Sherry responds, Senator Mulherin has indicated.

Senator Michelle Mulherin: Is engagement with ITs and third level colleges on an *ad hoc* basis? Does it happen because a business comes in or is there an ongoing dialogue? Are we planning into the future or is it just reactionary on a hit and miss basis?

Mr. Kevin Sherry: It is planned. It is part of the agenda of our local regional offices and the regional director in engaging with the institutes of technology and the universities in the region. It is a key part of the regional action plan for jobs and the regional action agendas that the skill requirements of companies in the region are addressed by colleges in the region. In certain areas such as ICT, there is a global shortage so competition in the area is fierce. It is a question of having to increase the overall supply.

Mr. Garrett Murray: The central question is whether it is strategic or operational and actually happening. On a strategic level, there is an enormous amount being done with education and probably more than I have ever seen in my time in the agencies, particularly on the national skills fora. On a regional level, they have brought the agencies - Enterprise Ireland, IDA Ireland and others - and our regional representatives, the colleges and, most importantly, the companies together. It is not just us going into the colleges saying we need X, Y and Z in the region; it is building the relationship between the companies and the colleges so they are listening to each other. We take the view that in the past the colleges have listened a bit more to FDI companies because they are larger in many cases. We are trying to shift that relationship.

On Senator Craughwell’s point about funding for the ITs, the HEA is currently doing its review of funding for the higher education sector. In our submission to that, we will be saying the importance of the ITs in terms of research is critical for SMEs. That is not to say it is not important for universities but we want to strengthen the relationship with the local ITs. The regional skills fora have worked quite successfully in this regard and we are fairly happy with the structures.

Mr. Kevin Sherry: I will respond to Senator Mulherin’s question on start-ups and how we compare in that area. Enterprise Ireland has focused on supporting internationally focused start-ups. Last year, in terms of spin-outs in third level institutions, we had the highest level of new start-ups so we are very pleased about that. In that area, we focus on specific sources of start-ups and work with them to try to increase the number in that area and also the number that achieve scale. A good example of that is in the female entrepreneurship area. If one goes back five years, about 7% of the high potential start-ups we supported were led by female entrepreneurs. Last year, it was closer to 28%. Internationally the figure in the ICT area is typically around 8%. We have much more to do but we have seen that when we take specific initiatives and specifically focus on an area, we get a result.

We are also seeing an increase in the number of start-ups led by entrepreneurs coming from outside of Ireland into Ireland to start their business. We have a specific focus on encouraging entrepreneurs from regions outside Ireland to look at Ireland as a location. When entrepreneurs are starting a business, increasingly they can make decisions on locations. Even if they are from Ireland, there is a decision on whether they will start the business in Ireland or look at other international locations. There is a constant challenge to these companies staying Irish and scaling their business. The availability of development capital is a key factor in that regard. If there is strong availability of development capital and venture capital in Ireland, there is a better chance that those companies will stay and grow a scale as indigenous Irish companies. We are particularly focused on ensuring its availability and encouraging international VCs to partner with funds that Enterprise Ireland is involved in supporting in Ireland.

I will address the implications of Brexit for the food sector. Senator Reilly raised the question of the Border region and mentioned Lakeland Dairies. There is no doubt the food sector is an area that potentially will be particularly impacted by Brexit and the outcome of the discussion on tariffs and cross-Border trade. If we look at the 600 most vulnerable companies, the Border region accounts for a little under 100 of those companies, which between them employ a little over 10,500 people. The food sector is an important sector within that. I mentioned China earlier and companies in the dairy industry are looking to produce high value products such as infant formula and being able to look at other markets. If one takes a company like Lakeland Dairies, in terms of logistics the number of cross-Border shipments even on a weekly basis is substantial. We are very concerned about tariffs or associated additional costs involved in the logistics and trade associated with it. When I talk about working sector by sector, it is something we have been discussing with our parent Department and with Bord Bia which has also worked with us on the food sector.

I will address the question Senator Daly asked about Northern Ireland. We regard it as on-island trade. Our focus with companies at the moment is to assist them to prepare for international markets. As it stands, our approach is to prepare for a hard Brexit. On-island cross-Border trade would face significant additional challenges to what it is currently facing. In terms of support for those types of companies, we are working intensively with companies involved in cross-Border trade but which are not exporting much beyond those shores. We have an agenda with many of those companies to encourage them to look at additional markets. It is part of our issue.

On the sterling issue, Senator Reilly mentioned mushrooms. It is a particular area that was first impacted. I will ask my colleague, Mr. Murray, to comment on it.

Mr. Garrett Murray: We are working with Bord Bia on food and the direct relationship. We put a lot of focus on applying our expertise on Lean. We brought a cohort of mushroom companies together and provided them with a Lean grant to work with Bord Bia to try to improve their competitiveness. That is what we have been able to do with them. Bord Bia had been working separately with them in terms of new markets and development.

Mr. Kevin Sherry: I will address Senator Daly's question on the replication of a trading arrangement similar to East and West Germany and also Senator McDowell's question on a common trading area. Enterprise Ireland's approach to this has been that any sort of barriers that exist in trade and freedom of trade is not good for our client companies. We see that as an issue. Ideally, we would like the current position to pertain, but that is not the case. We have fed strongly into our parent Department and to other Government Departments that are looking at this issue. We have also seconded one of our colleagues to the Department of Taoiseach to specifically focus on the sectors where we feel there is strong vulnerability in terms of Enterprise Ireland client companies. We are working across Government in terms of the inputs to that agenda. My colleague, Mr. Garrett Murray, may want to contribute further on that.

Mr. Garrett Murray: There is a structure across Government in respect of committees.

We put forward the point that the nearest to the *status quo* is what we are looking for. It is for policymakers in Government to decide how they are going to position that from a negotiation perspective but that is certainly what our clients and companies are looking for. When one goes through different areas of the negotiations, different sectors will have different priorities. Our priority will be to make sure that the policy system is aware of those as they emerge when contingencies are being discussed.

Senator Michael McDowell: It is a live issue.

Mr. Garrett Murray: Absolutely.

Mr. Kevin Sherry: Senator Craughwell also spoke of artisan producers and the support for those types of companies. One challenge we see in the marketplace at the moment, undoubtedly in the food area, is that companies supplying into the UK multiples are seeing an increased move towards initiatives such as Red Tractor, which is about buying British. We have seen this in the beef sector and in some other areas. Some of the options the companies in the food area must consider - we are in discussion with Bord Bia on this - include the question of whether they can look at other verticals, such as the food service areas, as opposed to the retail side. When one considers the beef area, which is very different from the artisan area, €1 billion of the €7.5 billion sales to the UK is in beef. Were the WTO tariffs to apply to beef, Irish beef producers would face a big challenge. The question of what ultimately emerges in respect of tariffs is a huge factor. We must bear in mind that the UK is a big net importer of food in its requirement and need for food. As Ireland produces enough food to feed a population of around 30 million and is a big net exporter of food, these factors are at play. There is a need to help artisan food producers and those companies that can produce premium products to look at other European markets and to look at channels other than retail.

Senator O'Reilly referred to Taiwan and the opportunities in China and the Asia region. Enterprise Ireland has three offices in China: Beijing, Shanghai and Hong Kong. We currently service the Taiwanese market from our office in Hong Kong. With regard to the scale of the Taiwanese market, we also have a pathfinder. This is a trade consultant who works specifically with us in accessing that market. We cover a number of the smaller markets from those offices. We are very focused on working company by company and sector by sector. We have companies who are exporting into Taiwan and we would see opportunities in that area. It is not yet at a scale that would justify Enterprise Ireland opening a separate office in Taiwan. We keep that situation under constant review but we are driven by matching the opportunity in the market with the capability of our client companies. Where we identify opportunities, we will work with them to go after those opportunities, not just by diversifying out or lessening the dependence on the UK, but also in looking at the opportunities that are there for growth in the long term.

I do not know if this has answered most of the questions but I will ask my colleague, Ms Anne Lanigan, to speak on the work we are doing on some regional initiatives and roadshows that are running now - we had one in Cork yesterday - and what is coming out of those initiatives.

Ms Anne Lanigan: The focus with our clients currently is to encourage them to prepare as much as they can for Brexit. There is a sense that there is a lot of uncertainty and we are not sure what is going to happen, so there is a risk that companies will not take action. We are very much encouraging them to prepare, and to prepare for a hard Brexit. That has been the objective behind the scorecard. We have a regional roadshow that we started in Cork yesterday.

We will go to Waterford, Monaghan, Galway and Limerick over the next month to encourage companies to see what their peers are doing. We bring in clients who we have seen reacting to Brexit in the right way by putting measures in place. That is a real focus for us. The scorecard is available to all companies and it is not just for Enterprise Ireland clients. We have a grant that is specific to our client base but the scorecard is available to all. I encourage all members to use it as anyone can do so; one just needs to log in and create a password. It is worth doing to understand the different areas of exposure for businesses. There has been a lot of focus on the currency, which has settled at 85p to the euro at the moment. Many of our companies say they can cope with that rate but we need to get them to look beyond that and into the other areas where they may be exposed, for example, if there was a downturn in the UK economy or an issue affecting their supply chains. There is much talk about the North-South issues, which are very important to us, but there is also the east-west aspect and the customs and barriers we expect to come into play there. These are all part of what we call the nine areas of exposure. We focus on those areas and try to translate them into what it will mean for each of our companies.

Senator Gerard P. Craughwell: When the representatives get back to their offices, will they provide us with the dates of those roadshows and the locations? It might be interesting to sit in on one of those to see what is going on.

Ms Anne Lanigan: Certainly. The dates have been decided and we will forward it on to the committee. We encourage members to attend the roadshows. They are very welcome.

Chairman: I thank Ms Lanigan. I was going to ask the same question as Senator Craughwell - great minds. I thank all three representatives from Enterprise Ireland for their extensive answers to the questions and for the original presentation by Mr. Sherry. It was very on point and exactly what we were looking for. As Senator Craughwell said earlier, I want to commend the effort of Enterprise Ireland, especially since its mild expansion post-Brexit. It is really encouraging to see the work ongoing. I thank the witnesses again.

Sitting suspended at 12.07 p.m. and resumed at 12.13 p.m.

Engagement with Industry Representatives

Chairman: We are back in public session. I do not intend to spend too long on introductions as we have so much ground to cover with our excellent witnesses.

I draw the attention of witnesses to the fact that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

I invite Mr. Dillon to make his opening statement.

Mr. Arnold Dillon: I thank the committee for the opportunity to set out some of the views and concerns of business on this crucial issue. As members know, IBEC is the country's largest business organisation and the voice of Irish business on a domestic, European and international level. We are working to support member companies across the country and in all sectors as they manage the immediate risks of Brexit and plan for disruption into the future.

The IBEC approach to Brexit is threefold. We are working at a domestic level to ensure the Government and relevant State agencies respond swiftly and decisively to support businesses during this period of uncertainty. We need to take immediate action in areas under our control. IBEC has set out its key proposals in a position paper which I have forwarded to the committee. We are working at a national, UK and EU level to ensure Irish interests are protected in the exit negotiations and in the new trading relationship that the UK will have to forge with Europe. Business comes with new ideas and a constructive approach and IBEC will be setting out detailed proposals over the coming weeks. We are working to support member companies as they navigate the challenges of Brexit. A new IBEC guide to Brexit looks at the potential impact on key sectors, as well as at how Brexit may affect currency transactions, supply chains, contracts, financing and the labour force, among other issues. I have sent a digital copy to the committee and have brought hard copies with me.

Preliminary estimates show that the economy grew by 5.2% last year, making Ireland the fastest growing country in the EU for the third year in a row. While growth is very strong, certain components showed some worrying trends as growth in both consumer spending and exports slowed compared with previous years. In 2016, export growth slowed to 2.4%, the joint lowest growth rate since 2008. Growth in goods exports was slightly higher at 4.6%. This was driven by strong growth in exports of electrical equipment and chemicals. As a large proportion of these goods are exported to the US, the strong dollar was a factor. Overall exports excluding these two sectors fell by 4.6% year on year, revealing a weakening for the indigenous export sectors. Goods exports to the UK fell by 3.4% last year mainly as a result of the weak position of sterling. Food exports, of which 44% go to the UK, fell substantially, down 5.2% on the previous year. The weakness in sterling faded a little toward the end of last year. This has given a welcome break to some exporters but there is likely to be further volatility as the year progresses.

Of course, there are potentially bigger challenges ahead. Unless there is a major rethink on the part of the UK, some form of customs border between the Republic and Northern Ireland, and between Ireland and Britain, seems unavoidable. This presents the potential for major economic disruption along with massive logistical headaches. In a worst-case scenario, under current World Trade Organization rules, some meat cuts would attract over 50% tariffs, with dairy tariffs of more than 30%. Although Irish indigenous exporters, two thirds of which are in the food sector, make up just 10% of our exports, they employ more and spend more in the domestic economy than the entire multinational sector. While our reaction has been to promote market diversification, this takes time and is expensive and difficult. It is cheaper to find a new plant than a new market. Little attention has been paid so far to the prospect of Irish food companies moving operations to the UK to avoid tariffs.

What, then, can we do? In the first instance, we must focus on what is within our control. This includes introducing targeted aid for affected companies. To achieve this, we will need the support of our European partners. European fiscal and state aid rules must not become a hindrance to our efforts. An intense focus on cost competitiveness is also required. Brexit will increase the competitive pressures on many businesses. We need to avoid runaway increases in labour costs and to take strategic decisions which could avoid increasing energy, regulatory and insurance costs. As we look to the medium term, and some of the opportunities which may come our way, we need to ramp up public investment far beyond current plans and put in place the quality transport network, education system and housing needed to attract new investment and compete in a post-Brexit world. The regions that are most exposed need particular attention. My colleague Mr. Gerard Brady from the IBEC economics team will be happy to talk through some of the specifics in more detail.

As negotiations begin, Ireland must continue to play a central, collaborative and constructive role in what we can already see will be a fraught process. It is critical that the UK retains as close a relationship as possible to the EU. We need to support these efforts in negotiations. The political settlement in the North must be afforded special attention, along with a continued commitment to the development of the all-island economy. The common travel area between the UK and Ireland must be preserved. The EU-UK divorce bill debate is a minor distraction in economic terms compared with what is ultimately at stake. It is vital that rapid progress is made on exit arrangements in order that meaningful trade talks can begin. Unfortunately, a massive and dangerous gap exists between current UK objectives and what is realistically possible within the parameters of the EU guidelines. It is vital that the shared economic interests of the EU and the UK begin to inform the mood and timetable of negotiations. A far-reaching free trade deal with minimal trade barriers is the goal, while fair competition must, of course, also underpin any new relationship. I thank the members for their time and we look forward to answering any questions.

Chairman: I thank Mr. Dillon for his very insightful introduction. We will come back to him and Mr. Brady during the questions and answers sessions. I will now move straight on to Ms Patricia Callan, director of the Small Firms Association.

Ms Patricia Callan: I thank the Senators for the opportunity to be here today. The Small Firms Association represents companies that employ fewer than 50 people, which make up 98% of the 238,000 businesses in the country. We account for half of the jobs and one third of the value of the total Irish economy.

The UK is a key marketplace. It is essentially where all small companies have traditionally learned how to export - same language, same culture, many of the same tastes - and this requires a dramatic change from them going forward. Those in the marketplace are already dealing with the fallout of Brexit, even before it has happened. As the committee has already heard from Enterprise Ireland, there is a real push now to look at diversification and trying to move into new markets. However, taste, for example, in the food sector, is one of the key considerations and that may not be possible. Companies are going to have look at other, more dramatic options.

I would also flag at the outset that despite the fact that the main focus is on export at this stage, only 6.4% of all exports are accounted for by small firms because most businesses and most jobs are in the domestic economy. In our discussions around this, we need to have an eye to what might be the impact for those businesses. My real concern is those businesses think that they are immune to this because they are not in the front line. There is an exercise about trying to get people to start planning and thinking within and outside supply chains of what could be the knock-on implications. For example, tourism will be directly impacted, as will the retail spend and sectors such as the hospitality sector. Moreover, I would say simply that when the UK economy is doing well Ireland is doing well. Therefore, the biggest issue is that if the UK ends up in recession then we will have to move dramatically here in terms of trying to prepare our own economy to withstand that.

In the statement I submitted, I have shared data from the surveys we conduct six-monthly. This one is from November last. We will be conducting one shortly and I will certainly forward the current data to the committee because I know it will be continuing to meet. In November last, 41% of our members stated that this already had a negative impact on them, with 68% expecting it to be more negative in the next six months. Only a minority of 10% of our businesses felt that it would be positive in any way whatsoever.

In real terms, the biggest implication we have seen is that one in two businesses immediately postponed investment decisions. Some are firing ahead going into the market but others simply stated that they needed to wait and see, that this is too uncertain. Some 37% stated it already had a negative impact on their sales in the UK, but the most surprising finding, particularly in the run-up to Christmas, was that 30% of businesses stated they had lost share here at home, with retailers substituting cheaper imports from the UK onto retail shelves here. Before Christmas, we ran a campaign with Love Irish Food that was all about trying to create this whole sense of buying Irish because that will be critically important.

Another change that we have seen, also in their supply change, is that people have started to move to source more raw materials from the UK to act as a natural hedge against the exchange rate and that is having an impact further down the line. We have also seen a minority of 4% make plans to move operations fully or partially out of Ireland and into the UK because it is their biggest market and it makes sense for them to do so. We are beginning to see a trickle effect on employment. Some companies have had to move to redundancies but more have had to move to short term and lay-off, as they have had to drop orders into the UK market.

In terms of the most significant challenges, the exchange rate volatility has been the biggest impact. Only 15% of the small companies would use financial hedging products and they were completely exposed. Nobody expected this to happen. The investment confidence piece is the second challenge. That is why we are seeing a lag in the national growth figures compared to where we would have expected them to be.

Finally, companies very much want us to focus on cost and tax competitiveness, going back to this idea of issues that are in the locus of our own control. In much of what is happening, we are one of 27, we are on the negotiating team - to be fair, we have enjoyed a lot of success in our positioning to date - but we need to be getting match ready in terms of preparing ourselves for what lies ahead.

In my submission, there is a testimonial from a member that is a food company in the midlands. They outline that in their business, which is a low margin business of 3% to 5%, when the exchange rate moved against it, by 11%, 20% or 24% at various times, this meant simply that they had to drop over €3 million in orders and that had an impact on their job times. So far, in reality, the Government has not moved at all to help those sorts of businesses. We have talked about it a lot. What I would like to say today is that we need to be moving to action on the aid package. We have certainly seen good initiatives for raw agriculture, but not for prepared consumer foods and for the broader business community. I will leave the committee to read that statement in its own time.

In terms of the priority actions, as I stated, we need to move now. My concern is that we are more uncompetitive at this time than we may necessarily be post-Brexit. Once Britain is outside the market one would assume it will become more negative for it whereas at present it has an exchange rate that is in its favour, it has already a very attractive tax package for entrepreneurs and for personal tax compared to what we have here, and its cost base is much lower.

We need to ensure that our businesses can survive during these two years.

Critically, we also need to keep lobbying the EU to introduce temporary state aid rules, as it did in 2009. We met the EU Commissioners and raised this, and their attitude is that was a financial crisis that affected everyone. This is a crisis of equal scale for our country and they need to accept that. We are beginning to hear that they might be considering it a bit more than they would have.

The Strategic Banking Corporation of Ireland has been working on low-cost finance measures for six months. We expected an announcement early in January. We have seen nothing. We need to see those measures out in the marketplace. We need to see specific export trade finance, which is available in most countries but not here, come back as a product too.

The work Enterprise Ireland is doing has been good and it has taken the right approach. However, we must remember that it represents only a small portion of the exporters. Many of our members are not Enterprise Ireland clients. What struck me with all of the new announcements, the new Brexit tool and the associated funding to do a Brexit plan, is that these are only available to Enterprise Ireland clients. We need to stop having these demarcation lines and to think that all affected businesses need these supports. If they are exporting, they should be entitled to them regardless of their client status.

As I mentioned already, a public awareness campaign to raise conceptually the issue of buying Irish is important. In the context of the move to online trading, the committee may be aware that we have an online trading voucher scheme for micro-enterprises - companies with fewer than ten employees - and we would argue the category needs to be raised up to 50 employees. We need to allow all businesses - retailers are on the sharp end of this - to gain a web presence to understand that market. With such practical measures that are already in place, it is simply about investing more funding and ramping up the delivery of them.

We have already been working closely over the past number of months. In terms of the negotiating teams in the UK and the EU, there has been good recognition of Ireland's issues, including the land border with the UK and the issues around customs - physically, getting one's product around the place. The freedom of movement of people is also viewed as critical. Our common travel area has to be protected at all cost; it is the top priority for SFA members in that more strategic longer-term frame.

We need to focus on cost competitiveness. That goes back to labour costs, the minimum wage, joint labour committees and public sector pay deals, all of which have knock-on implications in the private sector. Other committees of the Houses are working on insurance, where we have seen increases of over 33% in the cost of motor insurance. If one looks at issues such as the commercial rates review that is causing havoc around the country and the 2% differential in aid, through to public sector pay, all of these issues act against our companies and are issues the Government can move and act on. I encourage the committee to tackle them.

I repeat my plea to Brexit-proof budget 2018. That involves man-marking the UK in terms of what it is offering already. Post Brexit it will probably become even more attractive. If we do not have a CGT entrepreneur's rate of 10% up to, as it has, £10 million - our limit is €1 million - and if I am deciding today to set up a software company, would I set up here or would I go to the UK? We must start thinking about how to make it more attractive for people to set up in business.

Clearly we advocate a soft Brexit, trying to keep Britain as close to us as possible, and in the Single Market and customs union. Equally, strategically we need to be planning about our future and working with other European countries in terms of gaining new allies. We have been on the coat-tails of the EU on many issues, in particular, on regulatory issues. We, as an organisation, and the Government will have to step up to that into the future.

I thank the members of the committee for their attention and I am happy to discuss matters they may wish to raise.

Chairman: I thank Ms Callan. That tied in nicely with some of the presentations we heard earlier today. I next call on Mr. Ciaran Fitzgerald, the agrifood economist for the Alcohol Beverage Federation of Ireland, ABFI.

Mr. Ciaran Fitzgerald: My name is Ciaran Fitzgerald. I have 30 years' experience in the agrifood business and I was commissioned by the alcohol beverage federation to look at the impact of Brexit on the industry. I produced a report which has been shared with this committee. I am joined today by Mr. Ross Mac Mathúna, director of ABFI, who will answer questions.

The following is our view and what comes out of an analysis of Brexit. When we look at all the elements of our trade with the UK, especially for food and drink products, what we have is a cumulative €12 billion trade. That is made up of €4.5 billion worth of product that goes from Ireland to the UK in the food and drink sector and €3.5 billion worth of imports. There is also a significant cross-Border trade and tourism contribution. If €7 billion was spent last year by tourists in Ireland, 40% of those tourists came from the sterling area. Therefore, it is clear that trade relations and currency exchange rates between the UK and ourselves have a dramatic impact. Since the Brexit vote in June, all of those impacts have been against Irish business on the export and import sides in terms of cost comparisons.

The drinks industry produces, brews, distils and distributes products throughout Ireland. The concerns with Brexit relate to competitiveness and ongoing access. As mentioned previously, there is extensive access to the UK market. The reality is that all Irish products going to Europe go through the UK market. That is an ongoing issue.

One of the major challenges facing the sector has been illustrated by the short-term impact of sterling. I am referring to cost competitiveness. In that context, we believe there needs to be a major focus on the cost of doing business in Ireland, including the way we tax business, the way we tax consumption and elements of regulation that are currently being looked at. In that context, two key issues jump out for the drinks sector. One is excise duty. At the moment, Ireland has the highest priced alcohol in the European Union. We have the second or third highest rate of excise. We know from 2008 and 2009, when sterling weakened significantly, that we can get significant cross-Border trade. This draws more than simply alcohol consumption out of our market. It draws considerable consumption throughout the grocery sector and takes out badly needed income. Therefore, we need to be pragmatic and competitive with regard to our excise tax. We need to look at a situation whereby that is not sustainable. A tax that is so high that it is ignored is not worth being a tax.

The second element of these costs is the cost of doing business here, especially the cost of regulation as it comes from the proposed public health (alcohol) Bill. Many of the measures in that Bill will ultimately put up costs in Ireland without having in any way established on an evidential basis that they will have an impact on the consumption or abuse of alcohol. We need to be pragmatic at a time when we are trying to support jobs throughout the economy, especially jobs in the rural economy. We need to ensure that we are not committing own goals in respect of aspects that would put up costs.

In addition to the remarks on excise, I wish to point out that, as part of the public health (alcohol) Bill, the proposals on minimum unit pricing would further put up alcohol prices here. I realise it has been clearly stated that these will only be introduced here if they are introduced across the Border. Again, with the restrictions on advertising and some of the other aspects of the proposed Bill, what we are getting is a situation whereby the cost of either continuing to do business for companies in the South or the cost for new entrants to the business here will become very high for small companies seeking to get involved in the business.

In recent years, there has been an increased interest in growing the drinks sector in Ireland. We are fortunate that the large companies in the sector have invested significantly. A total of €400 million has been invested in the brewing and distilling sector in the past five years. That began even before the economic recovery. Those investments have deep rural roots in Ireland not only in terms of the pubs and tourism they support, but in terms of the ingredients bought in the economy.

There is a renewed view that whiskey distilling and micro-brewing have become growth areas. We have plans to increase the numbers of whiskey distilleries to approximately 20 in the coming five years. As well as increasing business operations in the community, these enterprises have an ongoing tourism impact. We know that 650,000 whiskey tourists visited Ireland last year. That number will grow to 1.5 million by 2024.

I will conclude by echoing elements of what has been said previously. There are clear issues around the support of industry that need to be looked at in the context of state aid. The philosophy and ideology behind state aid rules is that the Single Market is operating. The exit of the UK is a fracture of the Single Market. To apply constraints on state aid rules when the market is fractured simply does not make sense. Unfortunately, we have seen a sluggish rate of recovery by Europe from the recent 2008 and 2009 recession because of a fixation on an ideology around the restriction of state aid support. It only leads to recession and austerity. It is important that the background to these controls is examined and that a case is made to recognise the reality. It is important to deliver on the fact that whatever about the motives and origin of the decision of the UK to leave the European Union, Irish taxpayers and consumers should not become worse off because the United Kingdom decided to leave the European Union. In that context and in order to strengthen our case that state aid should be examined, we really should look at the prices, costs, taxes and regulations that are within our control. That means looking clinically at excise and the public health (alcohol) Bill.

Mr. Kevin Thompson: It is my pleasure to present the views of the insurance industry to the committee today on Brexit as well as our proposed solutions to some of the key challenges that exist as a result of it. I believe these hearings are important. Insurance Ireland is available to support the work of the committee in any way that it can.

By way of background, I am keen to give the committee an overview of who we are and what we do. We are the representative body for the insurance industry. We have over 140 member companies throughout all classes of insurance, reinsurance and captive management. I will set out some figures to give the committee an impression of the scale of the industry. Total industry employment is approximately 28,000 people, made up of those employed directly and indirectly. Insurance Ireland members pay out more than €13 billion in claims and benefits to Irish consumers each year. Gross premium income for our membership was €51 billion in

2015. The industry holds €200 billion in assets under management, with €35 billion invested in Irish infrastructure or Government debt. We pay €1.8 billion in tax and one in four jobs in financial services are in insurance.

Our members take on the risks of individuals, households and businesses and are involved in almost every aspect of economic activity in the country. Under the umbrella of insurance, products range from international insurance to reinsurance, health, protection products and pensions. These sectors need regulatory staff, underwriters, loss adjustors and sales staff among others. The breadth and depth of the industry are considerable. As an industry based on risk management, we are accustomed to dealing with changing circumstances, but Brexit is a unique challenge.

Insurance is a global business and within Europe it has developed for providers in the Single Market. This means we have companies with operations in many countries serving different markets. Ireland has benefited greatly from the market and has developed into an international insurance hub. Also, given our proximity to the UK, we complement and compete with the UK market. Given this interconnectedness there are two distinctive sides to the coin for us. The first is the potential upside. We are ambitious for the sector and want to maximise the potential inward investment from companies looking for a base to maintain European market access. However, there are potential down-sides too. As well as the threats to the domestic economy, a substantial proportion of our membership export to the UK. They require access to the UK market on existing terms in the same way as the agrifood sector and others.

Therefore, Brexit must be seen in the context of keeping existing jobs as much as it is seen as gaining new ones. Winning new investments is the key to keeping existing jobs since we are in a competitive international market and the credibility and attractiveness of a location are determined by the players in the market. In addition, any Brexit-related impact on the domestic economy will have an impact on spending and potentially the purchase of discretionary insurance products with the risk that households and businesses take on risks that could materialise and result in severe financial hardship.

We surveyed parts of our membership on two occasions in recent months on Brexit. In December, we surveyed our independent non-executive directors, INEDs, who are an important constituency with a broad industry perspective. At the time, 75% saw more opportunities than challenges arising from Brexit. In March, we surveyed the chief executive officers, CEOs, and chief risk officers, CROs, of our member companies and found a change in outlook. A total of 45% of our CEOs and CROs saw more opportunities and 55% saw more challenges arising from Brexit. Admittedly, these are different groups but it was a clear change in outlook. We also asked our CEOs and CROs about a potential "Brexit dividend" for Dublin and to rate the key priorities to realise this. The response in order of priority was addressing the regulatory considerations, infrastructural bottlenecks, personal taxation, availability of talent, and competitiveness issues. This should not be read as a wish list from the industry, but it does point to areas we need to consider for insurance but also for many other sectors.

I refer to one of these issues, in particular, which is regulation, and how we can develop a proposal to protect and grow the sector here. The European goal has been to create a single market for insurance subject to adherence to certain criteria such as standardisation of solvency ratios. The directive covering this is Solvency II. This is a directive in European law that codifies and harmonises EU insurance regulation. Primarily, this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. The regulatory regime is administered by national supervisory authorities and there is an element of national interpretation of standards, which is allowed. The development and implementation of Solvency II took approximately 20 years and came at a cost of €4 billion to implement across Europe and approximately €150 million in Ireland. Using Solvency II as a guideline, we are reiterating a proposal we made last year for two regulatory reforms which we believe would have a significant impact in terms of managing the downside and maximising the upside.

The first is grandfathering. This is where there is approval in principle for insurance undertakings that are regulated in other jurisdictions. For example, if the UK's Prudential Regulation Authority, PRA, licenses an existing company and it has a good record, then this should be a credit in the approval process and the Central Bank of Ireland should say it will allow the entity to trade on a similar basis to the circumstances in the UK. In short, this is an approval in principle approach based on the good standing of an equivalent regulatory authority. The second is a regulatory corridor. This is a joint grandfathering arrangement between the UK and Ireland. There is a desire for such an arrangement within the UK. This would allow for rapid approval of Irish entities who are seeking to export their services to the UK.

Brexit is a set of circumstances characterised by volatility and uncertainty. These proposals can provide reassurance to the domestic industry and facilitate new entrants in a manner that supports the UK and EU insurance markets. Solvency II is a robust regulatory system - I refer to the stress tests published in December 2016 to illustrate this - and Ireland should exploit this to its advantage. The proposals outlined above are in line with Solvency II and would allow us to realise the potential in our industry. They are also within our control, can be deployed quickly and would add to our standing as an enterprise-friendly destination within the EU.

Chairman: Last, but by no means least, I welcome Mr. John McGrane, director general of the British Irish Chamber of Commerce.

Mr. John McGrane: On behalf of the board and members of the British Irish Chamber of Commerce, I thank the committee for inviting my colleagues and I to make a presentation. The British Irish Chamber of Commerce is the only organisation focused exclusively on the trade between Ireland and the UK, championing it, protecting it from being undermined and increasing its current value of more than €60 billion per annum and the 400,000 jobs which that sustains directly and many more indirectly. We respect the will of the UK people to leave the EU but a bad outcome for the UK in its future trade relationship with the EU would also be a bad outcome for Ireland and because of the extent of our connectedness economically, culturally and otherwise, we have much with which to concern ourselves.

Brexit has rightly been described by the Minister for Foreign Affairs and Trade as the most important challenge faced by the island of Ireland in modern times. While Brexit is about more than the economy, I appreciate that the committee's focus today is on economic challenges and on seeking potential solutions and, therefore, I will confine my remarks to that context. The UK is Ireland's largest two-way trading partner not just for our exports, but even more so for our imports. It is not often highlighted, because no other organisation speaks to the business of importers, that while the UK accounts for about 16% of our exports - this figure increases to 50% for indigenous firms - we also depend on the UK as the source of approximately 33% of our imports, and as a relatively small island economy without the UK's heavy industrial manufacturing tradition, we need those imports to keep our own economy running efficiently and competitively and to sustain thousands of jobs in retailing, packaging, medical devices, clothing, food processing and many more sectors.

Turning to such effects of Brexit as we can predict, the Economic and Social Research Institute has calibrated that, depending on just how hard a Brexit we end up with, UK-Ireland trade could decline by as much as 20% as a consequence of Brexit, with the loss of as many as 40,000 jobs and a decline in Irish GDP of as much as 3.5% over subsequent years. Based on current GDP figures, that amounts to a €9 billion loss and rising to the economy. Nobody in Ireland would be unaffected. Given the nature our open economy, every business and employer in Ireland effectively either trades with the UK or trades with somebody else who does. If someone is a barber in Barberstown, he or she does not export to the UK but he or she probably cuts the hair of somebody from Intel, which does. The UK and Ireland have always traded together and we always will but because of tariff and non-tariff costs imposed by Brexit, the problem is that trade will be at lower value and will, therefore, support fewer jobs. The most exposed sectors are food and agribusiness, where WTO tariffs would make our exports significantly more expensive to the UK consumer, and tourism, where a weaker sterling and barriers to free movement of people could make Ireland a less attractive destination for our largest tourism market, which is the UK. In the same way, there would be a loss of opportunity in education and research where British, Northern Irish and Irish students and researchers currently choose freely between our respective colleges.

A hard Brexit with no deal between the UK and the EU for free movement of people, goods, services and capital would present these and many more examples of barriers to the conduct of business, trade, investment and employment in the ways we have come to take for granted since we joined the EU together with the UK more than 40 years ago. While nobody has left anybody yet, the effects of the risk that such a hard Brexit could result in are being seen, with Irish businesses looking to establish operations within the UK to protect their access to the more than 60 million consumers in the UK while retaining their Irish business to serve the EU. I refer to the example of a call centre in Dundalk servicing the customers of a UK retailer. Ireland has particular competencies in this area. Faced with the need to match sterling income with sterling costs, it can simply pull out the phones in Dundalk and plug them back in in Newry, and it is no surprise that some are thinking this way, with consequent danger to employment in the Republic. The good news is that almost nobody anywhere wants a hard Brexit. It seems certain that few, if any, of the UK voters who voted to leave in last year's referendum meant that the UK should negotiate to walk over a cliff to an inability to trade with an EU it knows or with others who have shown no urgency to agree new bilateral trade partnerships.

In general, we can assume that, political buffeting aside, the shared focus of all negotiators will be on achieving a soft Brexit with managed trade and managed movement of people, ideally with minimal operational intrusion on day-to-day community or business life. Key to this will be to intelligently square the circle of the UK's rejection of free movement of people with the shared UK-EU desire for free trade among 28 countries. That will be challenging for all member states but of all the regions of these islands, Northern Ireland is the most exposed to the downsides of Brexit and, therefore, most in need of ensuring the softest possible separation from the EU. Solutions for Brexit's threats to Northern Ireland touch all of the wider Brexit risks - border checkpoints, proof of origin of goods in transit, proof of nationality and status of non-nationals, fishing rights, access to markets and continuity of key EU support programmes. Physical security of communities in Northern Ireland is heavily predicated on economic security for the region and on the avoidance of abuse of economic freedom as much as civic freedom. While we know that here, it is a huge achievement of Irish political and diplomatic skills that the unique circumstances of this island are to be given particular acknowledgement in the context of the forthcoming Brexit negotiations. However, as First Vice-President Timmermans said, it will take all of Ireland's famed creativity to devise ways and means by which this island's particular needs can be satisfied "in the context of EU Law". What we need to do, and we need to start doing this now, is to bring together business and legal expertise to quickly develop fully thought through and legally proofed solutions for our negotiators. It seems that key to stress-testing of any of those measures will be their impact in the context of Northern Ireland. Thus, we have to devise solutions for Brexit that work for Northern Ireland, softening the terms of the UK's departure from the European Union and from the customs union. The British Irish Chamber of Commerce sectoral policy and Brexit committee fora, led by my colleagues Mr. Paul Lynam and Ms Katie Daughen, who are accompanying me today, span our hundreds of member firms, who together employ over 2 million people. They are focused on solutions of the type I will reference. These member firms bring together the experience and expertise of numerous businesses that know the issues and are motivated to solve them for the good of all. Our focus now is on working together with public representatives and agencies such as Enterprise Ireland, Revenue and customs officials and so on to develop practical solutions, including anti-abuse measures, that acknowledge the unique circumstances of the island of Ireland. It will take further time to proof any concepts to an adequate degree but the following are some potential ways forward that are currently under consideration in the work we are doing with member firms.

On free movement of people, bearing in mind that there is a difference between a person's right to travel and the procedures to validate that right, such as presenting one's Irish passport prior to boarding a flight to Dublin from the UK, the solution might be fully preserving the common travel area, notwithstanding that it has never operated with both Ireland and the UK either in or out of the EU. To ensure anti-abuse of free movement between Ireland and the UK, we may need to introduce a system of well managed movement, as is already the practice in Belgium, to which EU citizens, including us, may move for work but if we fail to get it within three months, we have to leave. We also need to confirm continuity of the existing shared visa waiver schemes between Ireland and the UK, which enable citizens from other nations, particularly Asia, to visit both islands on one permit.

On free trade in goods, bearing in mind that truck drivers are already accustomed to presenting other documents when boarding vessels, etc., the solution might be a pre-clearance model for through-traffic, that is, trucks and drivers, regardless of the driver's nationality, that pass through the UK landbridge to and from the EU, which is vital to Irish business. For trade with Britain and Northern Ireland, Irish traders could pre-register loads through an easily accessible online platform and already used portable or fixed number plate recognition and-or GPS locator systems that can track movement of those loads. We do not propose the Norway-Sweden border model, which limits the number of border crossing points, thus rendering some roads as unapproved - we know what that means here - and which allows for hot pursuit - we also know what that means here - by border police into each other's territories for up to 15 km in either direction, nor do we propose fixed checkpoints at either today's national border or air or sea ports where the physical infrastructure to address massive slowing of freight in transit would be impossible to provide and impossibly disruptive of trade, not least in fresh or chilled food trade, which is hugely important to the Irish economy. Reasonable anti-abuse measures will need to be provided to allow mobile spot-checks for proof of origin throughout the UK and Ireland. On free trade in services, which are very important, bearing in mind that services, ranging widely from education to legal advisers to downloadable software, are typically provided by mobile persons, which are to be treated as provided for in my earlier remarks, or through internationally transmitted data, the issue will be to enable unrestricted payment for such services between the UK and Ireland, without exchange controls of the type previously a feature of certain UK-Ireland transactions. It is not that long since we had exchange controls here.

On fishing, we believe the UK will not set as high a priority on retrieving its pre-EU fishing grounds as it will on ensuring the stability of Northern Ireland and on ensuring maximum market access for fish caught by UK fishermen so we propose that today's *status quo* of fishing rights as between Ireland and the UK remain as is.

On energy, as set out in the most recent publication by the British Irish Chamber of Commerce, the well-being of Ireland, Northern Ireland and Britain depends on access to an energy supply which is resilient, decarbonised and competitive. The best way to assure this is through physical interconnection of existing and planned energy connectors between our two islands and between North and South on this island.

On financial services, there is a natural co-habitation and complementarity in delivery of financial services among service providers on both islands, both grounded in common law, unlike the European system, and frequently working to each other's natural competencies. For its economic security, Northern Ireland needs to retain its opportunity to trade in these services with the Republic of Ireland and so provision should be made for a trade corridor for a pre-agreed menu of passported services between us.

Alongside all of these provisions, the UK and Ireland will need to give disrupted operators phased support for adjustment to the new environment. Such supports may be both financial and non-financial, including training and new market development advice and so on. Above and beyond such operational provisions as I have outlined, Ireland and the UK will need to invest in assuring the infrastructure for long-term successful growth in the economy and in our communities. For us, this must, as the great Dr. T.K. Whitaker knew, include assuring the future of the highest quality of third level and postgraduate education in this country. An immediately actionable step towards this would be to implement the proposals of the languishing Cassells report now.

At fair cost to the UK in contributions, etc., there is also the need to preserve EU funding programmes into Britain and Northern Ireland. Regardless of the timing of changed arrangements, we clearly have to provide together for a phased transition model to give all affected adequate time to prepare. We also suggest that there is now scope to craft together the wider opportunity of a UK-Ireland powerhouse model. In the context of newly shaped arrangements, Ireland and Britain can leverage our respective competencies in manufacturing and services, education and research, food and tourism, technology and cyber and at the same time deliver convergent costs of doing business on either side of the Border. This will promote more trade and employment among us, not less, supported by initiatives like the chamber's British Irish Gateway for Trade project which connects many more UK and Irish businesses online and with the involvement of trade support agencies such as Enterprise Ireland, UKTI and the various chambers of commerce throughout Ireland.

The agenda for action is clearly huge and apart from anything else there will be a practical need to avoid swamping our negotiators with more questions than answers. To that specific end, the British Irish Chamber of Commerce invites the Government to engage a tight, well-resourced collective of business representation, including ourselves, IBEC, SFA, the CBI from the UK, including Northern Ireland, the Institute of International and European Affairs, IIEA, and the Irish Farmers Association, IFA, to draw together the business community first to triage the issues offline and to bring forward really powerful solutions that are fully worked-up and already proofed to satisfy the EU legislative agenda. For example, the Government can have understandable difficulty commissioning any one law firm to advise it, but this expert group could bring together the best legal thinking of Ireland and the UK so as to bring forward proposals capable of making it through the negotiating process, ideally in ways which can also strengthen the EU itself, as is required for its future viability. The British Irish Chamber of Commerce will be glad to lead and facilitate this collective contribution to the work of Government, the Oireachtas and our negotiating officials and we strongly commend this valuable offer to the committee for consideration and endorsement.

Chairman: Thank you, Mr. McGrane. Before we proceed, I must appeal to members to keep their contributions brief and to confine them to questions, directing specific questions to specific witnesses. I will lead by example. My first question is to Mr. McGrane. In regard to infrastructure, has the British Irish Chamber of Commerce identified any priority areas for strategic capital investment? My second question is to Mr. Thompson. We are reading many reports in the media that Ireland, in terms of insurance services, is losing out post-Brexit. Luxembourg is being mentioned as a country that we are losing out to, and if that is true, how can it be addressed? If it is not true, how can we address that perception?

Senator Gerard P. Craughwell: I thank all of the delegates for attending today and for the time they spent on putting their presentations together. I was very interested in Mr. McGrane's suggestion that we seek to bring together various organisations - a powerhouse of interested parties - to draft the Irish strategy. I compliment him on that excellent idea.

I would like to know if any of the organisations have examined the terms of the Good Friday Agreement. We are clearly not allowed any bilateral negotiations when it comes to Brexit but under the terms of the Good Friday Agreement there is nothing stopping us having bilateral discussions, which may lead to recommendations which, in turn, may find their way into the overall negotiations.

The opening of plants in the UK was mentioned by IBEC. That would move jobs out of the Irish economy, which is something that would be of concern to me. How is it proposed to maintain job numbers if we move plant out of the country? Has the Small Firms Association carried out research in respect of the knock-on effects on organisations lower down the food chain, such as suppliers to manufacturers which in turn export to the UK? Short-term lay-offs were mentioned. Do we have numbers in this regard?

In the context of food and beverages and the alcohol industry, when we speak about putting in place supports, particularly to allow for market diversification, I assume we are referring to short-term supports to allow for diversification into global markets and not ongoing subsidies to maintain unviable organisations.

I know of an insurance company in the North which was considering moving to the South. It has postponed this move because of the uncertainty surrounding Brexit. Is there any evidence in this regard?

Senator Joe O'Reilly: In deference to the Chairman's wishes and the time constraints, I will ask specific questions. The first is to Mr. Fitzgerald. He spoke about below-cost selling. Does this dislocate jobs in bars and pubs throughout the country? Does it cost the State enormous money in the areas of health and justice, in this sense disadvantaging the country facing into Brexit?

It was stated that €13 billion was paid in insurance claims. Is it not the case that insurance costs are rocketing and that this is disadvantaging firms more than Brexit? The public liability premium on a small licensed premises in my village has increased from €1,800 to €3,300 this year. There is a similar issue with car insurance. In deference to the Chairman, I will not elaborate but the witnesses get my point. It is a huge issue, which is worse than Brexit in some respects.

The representative from IBEC spoke about targeted help. What does he mean specifically? What could realistically be done which would be sensible and useful and which we, as politicians, could advocate?

Are the organisations before the committee already lobbying independently of the Government in Europe and, if so, how? I ask the witnesses to tell us about specific tariffs that might be introduced in the context of the amounts that would be charged, how these tariffs would work, how they would inhibit trade and the type of firms that they might be likely to put out of business.

Chairman: I thank Senator O'Reilly and appreciate his brevity.

Senator Michelle Mulherin: To pick up on what Senator O'Reilly said, we have heard from the Small Firms Association and IBEC. We have identified areas with difficulties and we are looking at how we can assist to diversify markets and new products. Ms Callan gave a particular example of somebody with a profit margin of 3% to 5% exporting to the British market, and how the currency fluctuation floors somebody in this situation. I wish to make a comment in the round as the witnesses are representing various facets of industry. People have derived benefits from the drop in the cost of fuel but the multiples by which insurance premiums are increasing is the elephant in the room. Senator O'Reilly mentioned the €13 billion in payments. Mr. Thompson stated that €51 billion is being taken in. A lot of the mystery still has not been cleared up in the context of profits going to shareholders, what is really happening in terms of claims and the fact that the finger is being pointed with regard to awards, etc.

Small businesses are trying to ride out what will happen with Brexit but not only do they have problems with their public liability insurance being unaffordable, in rural areas where people must have a car - it is not luxury because there is no public transport - young drivers cannot afford to be insured in order that they might get to work. These are realities coming from the people represented by the witnesses. This must feed into it and it feeds into competitiveness. The insurance industry will not have customers to take out insurance policies in certain areas and people have been put out of business because they cannot afford insurance. This is a reality, aside from whatever else the Government can do. It seems that any good the Government can do is being taken back with the other hand by the insurance industry through increases in premiums. This view has been expressed already, but what is happening is appalling.

Senator Paul Daly: Without turning this into an insurance inquiry, I wish to elaborate on what has already been said in the broader context. By virtue of the fact that the witnesses have been brought before the committee in one group, they are all sitting in front of us. Have they sat together prior to today? What issues that they have flagged have they tried to address among themselves? Before Mr. Thompson got a chance to make his contribution, Ms Callan stated that insurance is an issue. She mentioned companies in the group which have suspended investment and which are actively considering relocation. Without getting into specific names and details, will she elaborate a little more on this? Is the suspension of investment specifically Brexit-related or is it due to some of the issues already mentioned, such as escalating insurance costs?

Senator Michael McDowell: I thank the witnesses who have contributed. I wish to zero in very briefly on what Mr. McGrane has told us about his proposal for a collective think-in on the flexible and imaginative solutions with which the European Union is asking Ireland to come forward. Throughout the morning I have been asking people where is this debate, who is driving it, are we depending on five civil servants in the Taoiseach's Department or is there a collective channel of communication and a national debate on what the flexible solutions are. The former Taoiseach, Bertie Ahern, came before the committee and spoke about a common trade area, and whether this would be North-South or east-west in nature is another day's work. The special position of Northern Ireland is hugely important for all the reasons mentioned.

I am supposed to ask a question rather than make a statement. Is this the first time Mr. McGrane has ventilated this idea in public and is he getting acceptance of it? To me, it is the most important proposal and we should begin now to focus on the positive invitation from the European Union to come up with this flexible and imaginative deal for Ireland. We just have to do it. I felt this morning, and I do not want to say anything about the previous contributions made prior to this particular session, that there is a sense of what might be termed "spectatorhood". These solutions will not come from five civil servants in three Departments.

Senator Gerard P. Craughwell: Hear, hear.

Senator Michael McDowell: They will have to come from a much broader section. That is all I am saying.

Chairman: I will come back to each witness individually. Some general questions have been asked as well as some specific ones. I would appreciate it if the witnesses addressed them where relevant. I will go in reverse order and start with Mr. McGrane.

Mr. John McGrane: I will pick up on the earliest question with a very quick name check against specific infrastructure opportunities. We have the only Government in Europe with a national strategy for housing, which is a very good thing and we need to move as fast as we possibly can to execute it. Education is a key current and long-term infrastructure piece. We need to implement the Cassells report and get on with a funded, viable, globally-competitive education system. We need to build a second runway at Dublin Airport for air access, so let us get on with it. With regard to capital investment in the economy, we have a broadband strategy which is great but we need to move faster to roll it out. We also need balanced regional recovery. This is not about Dublin, or indeed Cork, good as both are, but about achieving a response that is long-term, Whitaker-esque, has a 60 year view and has a vision for recovery for the whole of Ireland through some of the opportunities that present themselves now. That is not least considering the threat to agriculture and tourism, which is clearly a provincial issue.

Senator McDowell's question is an important one. The work that is being done by the five civil servants and others has been of an extraordinarily high grade. The work of the British Irish Chamber of Commerce spans the UK and Ireland, and indeed the EU. We know of no other government or government team supported by civil servants and diplomats that has done as much work with such focus to such excellent outcomes. We put that on the record. Many of us have stood to let that work happen. We did not disappear but waited alongside. We have sat one chair behind our colleagues so that they could do the hard work at diplomatic level that had to happen first. That was done below the radar, when many out on the street where asking where the Minister for Brexit was and what the plan was. We had the privilege of knowing the work that was being done, and they have brought it in. The onus now moves to business and the rest of society to play our part. Of course, it is too big a task to ask diplomats and civil servants, and Ministers and the Taoiseach, dare I say, to come up with the solutions. Business, which in the UK was fatally silent before the referendum, now knows that it has to play its part.

On the specific question of whether we had met before and ventilated this, this is an emerging work in progress between people of like mind across diverse franchises, people who represent one territory or one cohort. The unique position of the British Irish Chamber of Commerce as a two island neutral organisation involves a responsibility to think on that broad plane. We are happy to bring that forward for consideration and we will ventilate it with our colleagues and like minded organisations.

Senator Mark Daly: The proposal by the British Irish Chamber of Commerce is an excellent one. I am surprised that it was not approached already. It should be one of the key recommendations of our report.

On the insurance industry and the idea of grandfathering and joint corridors and so on, again it is very credible. We had the Central Bank in here in an earlier session, and one of the issues that I raised is that it has changed its rules and is not in the business of promoting Ireland as a location. It simply sees itself as a regulatory body. Do central banks in other European countries promote themselves? Are their regulatory systems promoting their countries as locations for the insurance industry in a way that we are no longer doing?

With regards the contribution from the Alcohol Beverage Federation of Ireland, I am not quite sure how the public health (alcohol) Bill is related to Brexit. Can the witness please outline how that relates? We have had much debate here on that matter.

Mr. Kevin Thompson: I will address the question on insurance costs and premiums, because it is a competitive issue and ultimately feeds into the debate we are having on Brexit. The Senator highlighted that we take in €51 billion in premiums and only pay out €13 billion in claims. We need to clarify that. As per the early part of my opening statement, our 140 member companies include both domestic insurers servicing the local domestic economy and insurers based here in Ireland not taking premium from the Irish economy, but inward premium from foreign jurisdictions. They have no interaction within this jurisdiction. If one looks at the general insurers who operate in this market, across motor insurance and public and employer liability insurance, the industry has suffered a loss of €875 million over a four year period, and that has been validated by the Central Bank of Ireland. Unfortunately, premiums have increased, but the mechanisms which the Department of Finance, through the cost of insurance working group, has implemented have led to 33 recommendations being brought forward, involving 71 action points, which we as an industry have actively engaged in. The two real recommendations which carry the most severe rating is the work that will come out of the personal injuries commission, under Mr. Justice Nicholas Kearns. That will be looking to have a standardisation of grading of injuries and at benchmarking our level of awards against other jurisdictions. Equally, we are looking at enhancing the powers of the Injuries Board so that we can take ancillary costs out of non-contentious cases and we can get claims through and get them paid more effectively on a daily basis. Ultimately premiums come back to the cost of claims, and until we actually see the outputs of these recommendations coming through we are at a new norm. We are acutely aware of it, and aware of the distress that it has posed to our consumers, but as an industry we are actively engaged in coming forward with solutions to address the cost of claims.

On the final question on promotion, we would like to recognise that we work with IDA Ireland, the Department of Finance and the Department of the Taoiseach on a daily basis and do a sterling job in trying to promote this jurisdiction as a jurisdiction of choice for financial services. Other countries do the same, but within the promotional ecosystem that they have, regulators would be involved. That is the case with Luxembourg.

Senator Mark Daly: Does that include the central banks?

Mr. Kevin Thompson: Yes, they are part of that.

Senator Mark Daly: I find it amazing that officials from the Central Bank were in here this morning and could not tell this committee whether any other European central banks were involved in promoting their countries as a location.

Mr. Kevin Thompson: In other countries they have a joined-up approach between their treasury-department of finance and their regulator. We know that from our experience. On the question of whether Ireland is losing out and what we can do in terms of addressing the perception around that, it is unfortunate that in recent weeks we have seen high-profile cases that have been decided in favour of other jurisdictions - not just one jurisdiction, but we have seen decisions in favour of Luxembourg and Brussels, and unfortunately Dublin has come up second best.

I go back to my statement on our proposed solutions. If we look at the implementation of Solvency II since 1 January 2016, it is a harmonised and robust prudential framework. It is based on the risk profiling of each individual company. Within that, national supervisory authorities have a certain amount of leeway in how they actually apply it. We firmly believe, particularly in the context of Brexit and for companies that are regulated by the Prudential Regulation Authority in the UK, which is a regulatory authority the equal to our jurisdiction, that if companies have gone through a robust approval process in that jurisdiction and are under a common Solvency II-EU framework and seeking to re-domicile some of their business so that they can maintain access to the European framework, that should be taken into account. If it is taken into account, we believe it helps us in terms of stabilising our insurance market, it helps the UK in terms of its access to Europe, but more importantly it helps the European insurance market as well. That would be the first point.

In terms of a regulatory corridor, we know from dialogue between our membership that the PRA, for companies that are based here and accessing the UK market, faces the same challenge. If we could get a regulatory corridor in place it would help greatly. If we have this grandfathering idea and have an approval in principle - we know some other jurisdictions are doing that and then working through the detail - it would help greatly in terms of perception.

There was another question asked about an insurance company in the North considering relocating to the South. From an insurance perspective it is a huge decision and it takes time to decide on a location if one decides to exit the UK. There are many considerations at play, such as infrastructure and housing, but the most heavily weighted consideration is the regulatory environment and how that regulatory environment is operated within this jurisdiction. I think I have covered all the points.

Mr. Ciaran Fitzgerald: In the first instance, I want to address the overall issue of how Ireland Inc. best approaches this issue. I accept the point that was well made that there is a need for a collaborative approach. As well as looking at ways in which they have to become leaner and more competitive due to the short-term currency movement, never mind the possibility of a hard or soft Brexit, many companies have been involved in the discussions at European level about the famous stricture that is state aid. It used to be the case in the 1970s and 1980s that if one had a good idea for something constructive and one went to the Government, the Department of Finance was usually blamed for blocking and for the fact that a good idea could not take place. State aid has become this all-encompassing stricture on practical ways in which one deals with the now, which is that there is a fracture of the European market, one of its biggest members is leaving, a member state that happens to be geographically beyond that member state will be hugely disadvantaged and Europe should not tell us that the rules that apply under normal circumstances should apply now. Unfortunately, one of the issues that arises when we talk to people in the European Commission is that Ireland has not put up its hand and said it wants state aid to change. The first thing that has to happen before we get into what may be done is that Ireland must put up its hand and say we recognise that these are exceptional circumstances.

That is in the generality. With regard to some of the points made on the drinks and alcohol industry, there was a ban on below cost selling in Ireland up until 2006. It lasted from 1987 to 2006. It was abolished by the then Government and the drinks industry has called for the ban to be reintroduced. A ban on below-cost selling was introduced in England and Wales three years ago and has worked very well. It addresses the issue of people buying extremely low-cost alcohol and, more importantly, supermarkets using alcohol as a loss leader whereby one comes in for the cheap beer and the supermarket recovers its revenue on the other products one buys, but clearly it is both socially undesirable and also misleading to consumers and involves all sorts of price bundling. There is a solution to that level of abuse that is addressed by the reintroduction of a ban on below-cost selling.

With regard to that and the overall point about the public health (alcohol) Bill, the proposal is for minimum unit pricing and an Irish-only label when EU labelling regulations are about to come through which are far more constructive. All of those things, plus the proposed restrictions on advertising, are imposing costs on business in Ireland that will do absolutely nothing for the consumption of alcohol, which has fallen by 25% in the past 14 years, but will put up the cost of doing business in Ireland. In addition to the fact that we have the highest priced alcohol in the EU, it will lead to cross-Border trade. That is very much a Brexit issue. In the round, it comes back to the point that at a strategic level we are speaking to Europe about ways in which it needs to recognise our circumstances. Our credibility in doing that is not enhanced if we are putting up our own costs or refusing to address them.

Ms Patricia Callan: I will start with the specific question about lay-offs and short time. In our survey, the member companies said that 7% of companies indicated they were likely to put workers on short time and lay-off and 2% already had to make some staff redundant. That is mainly in the manufacturing industry where one is running product lines and essentially if there is no demand for one’s product, one simply scales back. What we have found is that the food sector has been dramatically impacted because prepared consumer foods tend to be a low-margin business and that is where most of our indigenous exports to the UK are coming from. That is a big issue.

In terms of the knock-on effects in the broader sub-supply chain piece, I know from our own members how hard it has been to engage them on Brexit. The ones who are directly impacted are all over it. They have had to move and they have made decisions. We have published toolkits and advice notes and we circulated the Enterprise Ireland, EI, material as well, but I am worried that many businesses have not thought about this at all. As part of the education piece around the initiative, there is an onus on everybody to keep telling all of those businesses that they need to do it. One should bear in mind that 90% of businesses are micro businesses that employ fewer than ten people and they are not necessarily members of the bodies that are present, or any other organisation. In the rural economy in particular, we must get out the message that people need to start assessing. I strongly advocate that those who are affected should be eligible for the funding that is only currently available to EI clients to do their Brexit plan. That makes no sense to me.

In terms of lobbying, Brexit has produced a huge workstream for us. Yesterday, we met with the Federation of Small Businesses from the UK, which came over specifically to look at developing relations post-Brexit. We have been working with the UK Embassy, UK trade people and directly with the British Government, and also with the European Commission and our counterpart business organisations across Europe. Our initial reaction post the summer is that the further east one went in Europe, there was no engagement at all and people were not even talking about it. Getting the issue on the agenda is something other countries are working towards and ensuring an understanding of our issues has been our biggest focus. The big focus on the EU side has been on state aid because the Department is using that as a blocker and we have been trying to help it to come up with more innovative measures.

In terms of specific tariffs and customs, we have already started practical work so I have sent members into workshops both with the Revenue but also with the British equivalent. The member feedback has been very worrying. On the British side, there has been a sense that people coming over to start practical workstreams have no idea and because it is so long since people have had to think about customs and models and all of that, the expertise level is not there. I heard the chartered accountants say exactly that this morning. That was certainly the experience. We are getting down to the nitty-gritty. Yoghurt makers and water makers, among others, are describing how they produce product, how they ship it in trucks and how they get it across borders but if one thinks about the totality of Brexit, that is what one needs in every single product line in every single sector and for every single regulation. It is not simply just one room with one group of people. We need to have business people at all levels in all of these really practical things as we progress through. Our members have been very open and have participated in many Government workshops already around this. However, a bit of Brexit fatigue is now setting in because, for example, our members have gone to workshops about finance and supports last November and they say they spent their time going and they did all of that but nothing happened so we have to keep up the momentum in terms of deliverables to keep people engaged.

In terms of people suspending investment, that question was specifically around Brexit, so half the people did say that it was directly Brexit related. Notwithstanding the negativity this morning, our economic story is still remarkable, our growth figures are outstanding, our employment figures are very good and we should not be talking ourselves into a recession, but at the same time we need to plan for the future. Anyone exporting is directly thinking about this but it is the other people about whom I am a bit more worried.

Going forward, we are a member of the Department of Jobs, Enterprise and Innovation group that has all the agencies and most of the business organisations. The group is chaired by the Minister, Deputy Mitchell O'Connor. We have had one meeting so far and we are viewing that as a very solid workstream. Most of us have been all around the country on panels, at political party meetings, at local enterprise office meetings and we have had a lot of discussion. That has been useful in terms of hearing what everyone is saying. Now we would like to get into detailed work programmes and implementation and we are available to do that.

Mr. Arnold Dillon: I will pick up on a number of the points that were raised. The first one was from Senator McDowell about solutions. IBEC is a large organisation. We have 7,500 members and IBEC is also the umbrella group for more than 40 sectoral associations. Intense work is being conducted on where solutions can be found in the context of what is a very uncertain and difficult political backdrop. There is increased scope for some of those solutions in specific areas, depending on the competencies. In terms of the common travel area, there is potential for greater imaginative solutions. Other areas may be somewhat more dependent on the future trade relationship and part of the work in that regard will include lobbying but also digging down to see if we can get more of a meeting of minds and bring the two parties to a closer position. There will be technical, technological and regulatory solutions to try to make those future relationships as seamless as possible. They will create as much continuity as possible with the existing relationships and we will set out the details of those in due course. Our members are actively engaged across all different sectors and policy headings.

We were asked about lobbying in Europe. IBEC and our sectoral associations have been incredibly active in Ireland and in Europe. As the Government has been doing, we have been putting up in lights the unique Irish situation and our unique exposure. This needs to be done before we can get traction on some of the other proposals and the EU guidelines reflect an appreciation of that. Irish business has been ahead of the curve in this area and we have an office in Brussels for this purpose. We are actively engaged on an ongoing basis with the EU institutions and there has been open engagement with Michel Barnier's task force, as well as that of the Council. Solutions are now required and IBEC will be actively working on that basis. We will engage with the institutions and through our umbrella group, BusinessEurope, with a lot of other European business federations. We will not only do this in Brussels but will bring our ideas and the Irish perspective to the capitals of Europe and to key member states and influencers across the EU.

All-island institutions are a big priority for IBEC. We have been working with the CBI in Northern Ireland on a joint business council for some time and from long before the peace process came to fruition. It has been a forum where politics can be left at the door and progress can be made on issues of shared interest. An enormous amount of development has happened in this area since the peace process came to fruition and there is now a massive danger that some of the positive developments will take a step backwards with Brexit. The trade relationship could be affected by a customs border and regulatory issues. EU funding streams may be affected and solutions will be needed at EU and UK levels to ensure existing projects and vital future projects continue. The economic element is a core part of the normalisation of politics on this island.

We were asked about the relocation of Irish companies into the UK and state aid issues. I will touch on them briefly and Mr. Brady of the economics team will talk about state aids in particular. The first thing is to decide what is under our control and Irish cost competitiveness is top of that list. It is important not to take legislative decisions that increase the burden on employers, that our tax position is competitive *vis-à-vis* the UK and that we can be proud of our business tax offering. Even long before Brexit, the UK was making its business tax offering more attractive and Ireland needs to be cognisant of that as it will be accentuated post-Brexit. The investment agenda has been a priority for IBEC. We are already seeing significant bottlenecks in the economy and a massive investment programme needs to be put in place to ensure that even if wider external threats cause us problems, our own economic limitations will not trip us up.

On state aids, Mr. Brady will talk about what is possible and feasible in terms of supports for Irish business in the context of Brexit.

Mr. Gerard Brady: Without naming names, we have already heard from specific members about moving plants to the UK. They are not just thinking about it but are actively looking at it. Diversification is difficult for markets into which a company is not used to selling. They believe it might make sense for them to move and they are also being approached directly by part of the state apparatus in the UK, particularly the Welsh and UK Governments. Market access is the key issue and if there are going to be tariffs for the beef industry there will be moves because it will be impossible to export to the UK, which is our major export market.

We were asked about supports and this goes back to state aid. There is an incredibly tight state aid regime at the moment, namely, a rescue and restructuring aid regime in which a company has to have gone through insolvency before a government can seriously help it. On the question of specific supports, in 2009, as Ms Callan mentioned, the European Union suspended some of the provisions under Article 137 of the treaty in order that Enterprise Ireland and other State agencies could give better support to companies. Companies moving from the UK market and trying to diversify will need support because it can take three or four years to get from A to B. In between, there is a valley of death and this is the big issue for Irish companies. We need to support them through it, particularly in diversification and marketing supports. Some such supports are in place but they need to be ramped up significantly. E-commerce supports are needed for domestic companies, particularly retailers. In 2009, the last time cross-Border shopping was an issue, 20% of Irish people shopped online but that is up by 60% now. The reach of cross-Border shopping was only 40 km from the Border in 2009 but, with e-commerce, it now stretches the length and breadth of the country.

Product innovation is going to be massive in the areas of taste, marketing material and packaging. It all needs to be re-innovated because it is currently targeted at a UK consumer and specific industries, the cheese industry being one, will have severe problems on account of their products being tailored to and only being consumed by the UK. Food companies producing fresh products also will have trouble reaching markets because their produce will not survive longer distances.

Tax is a big issue but that has been mentioned. There will be job losses, no matter what happens and whether there is a soft or hard Brexit. There is already a European Globalisation Adjustment Fund to support workers in Ireland and elsewhere who have become redundant because of the negative effects of globalisation and we think it should be extended to workers affected by Brexit, with retraining and enterprise supports, etc.

Chairman: I thank all five witnesses and their accomplices for engaging with us this afternoon. I ask them not to limit their contributions to today's meeting. This is a living, breathing process and we are meeting as a committee until 30 June, when we will finally put ink to paper, so we would appreciate ongoing conversations with all witnesses.

Sitting suspended at 1.38 p.m. and resumed at 2.48 p.m.

Engagement with the Bar of Ireland

Chairman: This session will be an engagement with the Bar of Ireland. I am pleased to welcome Mr. Paul McGarry, senior counsel, chairman of the Bar of Ireland, who also chairs its working group on Brexit, and Mr. Patrick Leonard, senior counsel. Earlier today, the special committee had an extensive debate with representatives of a range of sectors who offered interesting insights into the economic impact of and solutions to some of the problems presented by Brexit. Our engagement with the Bar of Ireland has focused thus far on the opportunities Brexit offers Ireland. We appreciate the documentation circulated to members in advance of the meeting. The doctoral thesis I received from the Bar of Ireland makes for heavy but very worthwhile reading and offers the types of ambitious solutions the special committee has been mandated to explore. We are grateful to Mr. McGarry and Mr. Leonard for coming before us this morning.

Before we begin, I will read the standard note on privilege. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable. By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

I welcome Mr. McGarry and ask him to make his opening remarks.

Mr. Paul McGarry: In addition to Mr. Leonard, I am joined by my colleague, Mr. Patrick Mair, and by Ms Ciara Murphy who is director of the Bar Council. We are delighted that the committee is taking time to have us here today to outline some of our views on the issues that are for its consideration.

Our submissions are confined to certain issues that may arise in the field of civil justice as a result of Brexit. Although media commentary has focused on the implications for financial services and insurance companies over the loss of passporting rights, the rights of citizens of the EU to remain in the United Kingdom after Brexit and *vice versa*, customs and tariffs issues, the Bar of Ireland wishes to highlight the wide range of civil justice issues that are raised by Brexit, particularly in a hard Brexit scenario. As a country with deep personal and economic ties with the United Kingdom, the issues here have the potential to affect Ireland more than perhaps any other country in the European Union. The Bar of Ireland also wishes to highlight some opportunities for Ireland in the context of marketing legal services.

We have identified a number of areas of concern. In order to highlight these, I will explain briefly what they are. The first relates to civil jurisdiction, and the recognition and enforcement of foreign judgments. In order to ensure the smooth flow of commerce between the member states, it is essential that the judgments of one member state's courts are recognised in the other member states. Similarly, it is important that companies and individuals know which courts will deal with disputes, and how court papers from one member state's court system may be served in another member state. In the existing legal order, in civil and commercial matters, these issues are comprehensively dealt with by the recast Brussels regulation which deals with both the jurisdiction of courts and the recognition and enforcement on judgments across EU borders in civil and commercial matters. That regulation which is directly effective as the force of law in all member states provides that judgments of courts of one state are enforced throughout the other member states as if they were the judgments of the court of that member state. In general, if a person is domiciled in an EU state, he or she must be sued in that state. Where parties choose in their contract that any disputes should be resolved in one member state, the courts of the other member states must abide by that choice.

In addition, there is a range of EU rules on the service of judicial and extra-judicial documents. The benefit to such a system is, of course, self-evident. If an Irish company obtains a judgment in Ireland, it will be entitled to enforce that judgment against a defendant in any other member state. Similarly, the Irish company can be satisfied that it will only be sued in Ireland, unless the rules of the recast regulation permit it to be sued elsewhere. In the context of a hard Brexit, none of these rules will apply so that European companies will find it difficult to enforce European judgments in the courts of the United Kingdom. United Kingdom judgments may be unenforceable in certain member states, and their enforcement in Ireland will be rendered more difficult and more expensive. These issues also affect multinational businesses based in Ireland, or those considering whether to relocate to Ireland.

Much of the regulation of the financial services and insurance sector in Europe derives from European Union regulation. Part of that system allows what is known as passporting. I am sure the committee will have heard about this from various other parties which have been before it. Under that system, where a regulated entity is situated in one member state, it is, under certain conditions, entitled to provide services to businesses and consumers in other member states. Many of the financial services and insurance businesses established in the City of London use those rights to provide services across the European Union. Similarly, there are many financial services and insurance businesses across the European Union which use passporting to provide services to what is the very large United Kingdom market. In the context of a hard Brexit, it is likely that the right of companies to passport either out of or into the United Kingdom will be removed. This will give rise to significant disruption in the provision of financial services. Whereas there may be a migration of some businesses to Ireland and, therefore, benefits, some Irish companies may lose the right to provide services to the United Kingdom.

There is a Europe-wide insolvency regime which is given effect by the insolvency regulation. Under the rules established by this regulation, the courts of the member state where a company's centre of main interests is situated have jurisdiction to open main insolvency proceedings in respect of that company. The clarity provided by the insolvency regulation is especially valuable where companies routinely trade across borders and have assets and operations across multiple jurisdictions. In the scenario of a hard Brexit, the courts of EU member states are unlikely to recognise the United Kingdom and *vice versa* in an insolvency situation.

These are just headline issues. There are a wide variety of other legal issues that affect citizens across the EU, particularly in Ireland. There are many other areas where citizens' rights could be affected, such as family law, immigration and employment law, consumer law, competition, tax and so on. The effect of a hard Brexit will be seen in the application of legal provisions affecting ordinary people on a day-to-day basis.

What can be done about it? In the absence of agreement between the European Union and the United Kingdom in a range of areas relevant to civil justice, businesses and individuals will have to fall back on pre-existing international treaties, where they exist, or develop new ones, or on long-standing rules of public and private international law. That is a very complex concept and is likely to give rise to increased cost and uncertainty in the conduct of commerce and in the movement of people between the European Union and the United Kingdom.

Political considerations fall outside the remit of the Bar of Ireland but it is clearly in the interests of both the European Union and the United Kingdom to seek replacements for the Brussels recast regulation, the insolvency regulation, and the other rules which are currently in force across the European Union. The Bar of Ireland notes the stated objective of the United Kingdom to remove its legal system fully from the jurisdiction of the Court of Justice of the European Union. This stated desire may prevent agreement being reached in respect of many of the areas of civil justice where it is clearly desirable that there be the fullest possible co-operation. It may be that some compromise can be reached whereby the United Kingdom would accept the jurisdiction of the Court of Justice of the European Union on the type of procedural issues involved - for example, in the context of jurisdiction and enforcement and, perhaps, regarding the service of documents, now governed by Brussels' recast regulation as opposed to substantive private international and public international law.

These are the macro issues. We also want to highlight the significant opportunities to expand the market for legal services in Ireland. The provision of legal services increasingly has a prominent international dimension and regularly involves international issues. The growth in international trade and investment has increased demand for cross-border legal advice and representation. Over many years, the United Kingdom has consolidated efforts across a wide range of stakeholders to increase its share of the international legal services market and it has been hugely successful in so doing. At present the United Kingdom is believed to account for 10% of global legal services fee revenue and 20% of European legal services fee revenue.

One of the factors that underpins the United Kingdom's position as the second largest market for legal services globally is parties to international commercial contracts choosing English law to govern their agreements. This is borne out by the volume of litigation and arbitration involving non-UK parties that occurs in the United Kingdom. For example, the data we have collated suggests that since 2010 around 80% of all London commercial court cases each year have involved at least one non-UK party. In almost 50% of all cases, all parties are not UK-based or linked.

Brexit creates an opportunity for Ireland to increase trade in legal services from Ireland to the international sector. First, Brexit creates considerable uncertainty among UK legal services providers concerning their ability post-Brexit to service their clients as before, given that they will no longer be part of the European legal order. Second, Brexit has significantly lessened the attractiveness of English choice of law clauses in commercial contracts. According to a survey conducted for the Bar Council of England and Wales, European clients are already considering moving away from English choice of law and jurisdiction clauses. In addition, according to the same survey, some international parties have already chosen not to issue proceedings in England because there is a fear that final orders will have to be made after Brexit and there is great uncertainty about the enforcement of those orders.

Following Brexit, Ireland will be the only English-speaking common law jurisdiction fully integrated into the European legal order. This should help to attract financial and other services industries into Ireland and provide an opportunity to increase the market for legal services in Ireland. We think it will encourage international clients and companies to incorporate Irish law as the governing law of contracts in place of English law, to designate Ireland as the forum for the resolution of disputes about those contracts by way of litigation or arbitration and to use Irish lawyers to advise on European law. What is interesting about the statistics that we have come across is that London is the second-largest centre for the provision of advice about EU law outside Brussels, which is extraordinary when one thinks about it. The reality is that that will have to change after a hard Brexit. The availability of highly-skilled common law and English-speaking lawyers in Ireland is an important support for the international business that flows through Ireland. Considerable expertise has been built up by the large firms in this country in areas like funds and aircraft leasing, for example. Irish firms are able to rival the large international firms in these and other sectors.

There is further potential for Irish solicitors' firms and barristers to provide legal services from Ireland to clients outside Ireland. Considerable work is required to take advantage of the opportunity to increase trade of legal services to the international sector. Over time, and this is only going to happen over time, it ought to be possible to significantly increase trade in legal services from Ireland in Dublin, with increased business opportunities and revenue arising from ancillary support services and increased tax revenues for the State, both by way of income tax and VAT. The potential rewards to the economy are very significant. One of the figures that emerges from looking at the raw data is that, in 2015, the net export value of legal services in the UK, by which we really mean London, was about €4 billion. Not all of that is necessarily affected by the Brexit scenario, but that is a figure that we think significantly understates the export value of the English legal services market. One does not have to be particularly ambitious to see how even taking a small chunk of that would involve a significant increase in revenues here and for the State.

It is important to say, as we have said, that in common with many other sectors, we are not talking about competition between Ireland and the UK. These are businesses, clients and firms that we know are actively considering moving because of Brexit, and therefore it is a question of them deciding whether they come to Dublin as opposed to Paris, Frankfurt or Amsterdam, not whether they stay in London or come to Dublin. Over time, it is possible to increase the trade. If Ireland becomes a place in which international litigation and arbitration is routinely carried out, it inevitably enhances the reputation of Ireland as a place to do business. The circle, in essence, goes around, particularly for the type of financial service providers that are now considering a move.

That is an outline of our position on it. As the Chairman has noted, we have supplied the raw data behind it. That is constantly being monitored and updated on our side, because all the reports are being prepared on a regular basis.

Chairman: I have a plethora of questions but, for once, can I let my colleagues go first? I jumped the gun earlier. I call Senator Paul Daly.

Senator Paul Daly: I welcome the delegation and thank it for the information we have received and the presentation today.

Based on what the witnesses said, we are looking at opportunities and it is a breath of fresh air to hear an inkling of positivity in this. They highlighted potential opportunities based mainly on companies now based in London moving over here. How much extra business may be available for indigenous businesses and practices here and how prepared are we to harvest whatever potential may show itself there? While we have the witnesses here today, I have another question which I hope I word correctly - I am no legal eagle - about the legal rights of the citizens of Northern Ireland after a hard Brexit, which I am finding it hard to get my head around. They are all entitled to an Irish passport on the back of the Good Friday Agreement. In theory, they will all get Irish passports so in theory they are also members of the EU. When it comes to legal issues, does the company law or whatever that they are tied to follow the individual or the locality? What rights do they have under a new British justice system as citizens of the EU under the European Court of Justice, ECJ? It is something that I have been trying to work my head around. On the final day, when people say that Brexit has happened and to get on with it, is there the potential for a large number of cases, specifically in the North? I may not be explaining myself very well, but the rights of the people of Northern Ireland under the two different jurisdictions once this is over and done with have been preoccupying me.

Senator Gerard P. Craughwell: I welcome the delegation. I am sorry that other people are detained in other committees and that there are not more here.

On the opportunities that will present themselves as we move closer to Brexit, has the Bar Council now got what may be termed a "marketing suite" in order to market its services to potential clients? I recently attended a conference where the preparedness of the financial services industry in the UK was discussed and how it is ready to relocate part of its business to European capitals and other cities, to Dublin, Frankfurt or wherever. We then finish up with two separate legal systems, which is probably going to create enormous work for barristers and solicitors on all sides. Is that a problem that the witnesses see coming down the line as well as an opportunity? I wonder if they have any statistics on how many companies have sought advice about locating in Ireland and moving their operations here to avail of opportunities that they currently have in the European Union.

Are the witnesses in discussion with the UK's Bar Council about sharing the spoils of whatever is going to come out of this? As far as I know, and I might be wrong, we do not operate a chambers system like in the UK. Is there any opportunity for a group of barristers to come together and form such an operation where they will be able to offer a one-stop shop of expertise for companies coming here? If one is dealing with a chambers organisation in the UK, there would be a variety of expertise in the chambers, whereas here one has to go and find sole traders who are experts in specific areas. How much of a problem do the witnesses see languages as being for members of the Bar Council?

Finally, speaking about civic rights and justice, we have a number of UK citizens living in Ireland. We have a number of Irish citizens living in the UK. It is well-established that there is going to be a problem if we land ourselves in a hard Brexit scenario. I said this morning and will say again that I do not see a hard or a soft Brexit, I see a totally disorganised Brexit where bits and pieces will come together. In this country, we have 100,000 people living in the North of Ireland who are UK citizens and are not entitled under the terms of the Good Friday Agreement to carry Irish citizenship, whereas their children are. These would mainly be expatriates who came into the medical profession, academia or the restaurant business in the North. There are 100,000 of them. I have raised their unique situation with everybody who has come in so far. It is a problem and I have no doubt that it is a problem that will ultimately finish at the desk of the witnesses or their colleagues somewhere along the line to try to establish those people's rights. Have any approaches been made in that area to members of the Bar of Ireland?

I apologise if the questions are too specific, but those are the matters of interest to me.

Chairman: I thank Senator Craughwell. I note the presence of Senator Victor Boyhan, who is substituting on behalf of Senator Michael McDowell, who has given his apologies.

A number of questions I hoped to ask were asked by Senator Craughwell. I have one or two specific follow-up questions and they might tie in with some of the questions asked. Senator Craughwell mentioned a marketing suite for the Council of the Bar in Ireland. It goes beyond the Bar Council. It goes to the entire sector, to the financial services sector and to the Law Society. Who is selling Ireland in this area? Is this a responsibility for a State agency? There might be a role for the Minister for Jobs, Enterprise and Innovation, Deputy Mitchell O'Connor, or the Tánaiste and Minister for Justice and Equality, Deputy Fitzgerald, to sell this as a package, much like the bids we are putting in for the European Medicines Agency and the European Banking Authority.

Enterprise Ireland was here earlier and it is out there with IDA Ireland, day and night, selling

Ireland as a place to invest and trade. The Ministers of State, Deputies Breen and Dara Murphy, are traversing the globe, rightly, and it is really promising. However, is that being done for the opportunities the witnesses have just mentioned and if not, why not? What is the solution? This is something we can say to the Government now. We do not even have to wait to write our report at the end of June. We can feed it in almost instantaneously. How can we get a part of that €4 billion export value? We have said in respect of a number of areas that if we can get 10% of the exiles from London, we will be doing great. It would make a great difference to our economy in a year to get 10% of €4 billion.

Tied into that is the need, as Senator Craughwell said, for language proficiency. In a former life, I spent a great deal of time working with people to train them up to apply for posts as lawyer linguists within the European institutions. It was a huge issue. Notwithstanding that these were very promising and lucrative careers, the numbers applying from Ireland were a proportion of the *per capita* numbers from other member states where it was seen as something viable. As Senator Craughwell asked, how do we encourage not only those with relevant language knowledge and experience, but more barristers and solicitors? How do we prove to a second year devil at the bar who is looking forward to ten years of a slightly tougher experience that this is worth investing his or her time in? Do we need to provide more supports for recently qualified solicitors and recently called barristers?

Before I move on from this topic, I ask if there has been any evidence of expansion by UK firms or chambers into the Irish legal system. We have all read articles and various media pieces involving rumours about large London-based firms or London-origin firms seeking to set up offices in Dublin or to merge with Irish firms. Is there any tangible evidence of this? Moving away from the firms, are we seeing more barristers from London, Birmingham or Belfast, even, wondering whether to transfer?

Certain parties have chosen not to issue proceedings in England. What happens there? Is it the case that they have decided to sit on this for a year or two? What else needs to happen in the meantime? What happens to those proceedings? It may be down to my ignorance of the legal system but do they just float in the ether? What happens while that delay goes on? We have asked a lot of questions. Perhaps Mr. McGarry might answer some, with his colleagues coming in on others.

Mr. Patrick Leonard: I will deal with some of those questions. The Chairman asked about proceedings. It is not that they would be delayed for two or three years. Very often in cross-border disputes, the parties have a number of choices as to where they would begin the litigation. That can depend on the contract and the parties who are going to be sued. The suggestion is that some parties would be concerned that an English judgment received at the end of litigation and entered after a hard Brexit would be less easy to enforce in other European countries. That might lead one to decide to issue those proceedings in another European country, including, potentially, Ireland, France or Germany. One would then know that one's judgment could be enforced in other countries.

To move from that legal strictly legal point to those raised by Senators Paul Daly and Craughwell, the opportunities which arise for the Irish legal sector present themselves in a number of areas. We were asked about the opportunities for indigenous firms and people here. In so far as large financial services or insurance firms move to Ireland, it is likely that they will use the services of existing firms in Ireland to provide some legal work. In so far as the Government is successful in persuading businesses to come to Dublin, that is likely to increase the amount of work for existing solicitors firms here. Obviously, if there are disputes in the long term, that is likely to produce extra litigation. Similarly, if we can persuade international companies to use Irish law more than they have to date and in areas like commercial contracts between Irish and foreign companies in funds, aircraft leasing and bonds, it is likely to give more demand for Irish lawyers. That is another area where, outside of people moving to the country, there can be an increase in business for Irish lawyers. There is obvious potential, as one reads in the newspapers, that some foreign firms may decide to come to Ireland. They may bring some employees from abroad, including English solicitors and New York attorneys, but, in truth, if some of the large firms from London or New York move to Dublin, it is likely to provide employment to the local market also. All of those are areas where the local market can be increased without reference to work coming in from abroad, which is obviously a different point.

We were also asked about a marketing suite and the engagement with other Government agencies. The Bar Council of Ireland has, for a number of months, had extensive engagement with a large number of solicitors firms. We have had extensive engagement with a number of Government Departments and IDA Ireland and we are in the process of putting together a formal strategy to market Irish lawyers and Irish law. That is in hand but not yet complete. It is something which can usefully be led at official level and we are hopeful the initiative will bear fruit over the next number of months. We are beginning to work hand in glove with IDA Ireland, which is very supportive of our proposal to market Irish law and Irish lawyers. Law is an ancillary service to the financial services sector but it will help to sell Ireland if IDA Ireland or any Department can go to London and New York and say that not only is the regulatory structure in Ireland good for setting up a financial services or insurance business, but we have the support structures in terms of good lawyers and accountants to support that business. In so far as the Government's pitch to the international community is that Ireland is an English-speaking common law system and in so far as that is an advantage, the legal community of barristers and solicitors should be part of the drive to market Ireland and show that it is a good place to conduct legal business, get legal advice and resolve business disputes.

Senator Gerard P. Craughwell: Mr. Leonard said some firms may bring their own lawyers from the UK or New York. Since the 1960s, quite a number of firms have come to Ireland. What has the practice been in general? Have they used Irish firms and Irish barristers to deal with their legal questions?

Mr. Patrick Leonard: Since the 1960s, there has been a great increase in the number of multinational businesses coming to Ireland. The solicitors' sector has provided a very advanced service to those multinationals, particularly through the large and medium-sized firms in Dublin, Cork, Limerick and Galway. I expect that it is the business provided by those large multinational firms which has allowed the legal sector in Ireland to develop in the way it has. One would have to ask members of those firms about it in more detail, but our understanding is that the large multinationals in Ireland use the large firms in Dublin and some of the regional centres as a matter of routine. It may be that there is some type of work that still goes to their London or New York departments, but they all certainly engage with the firms here.

An issue I did not deal with was whether people had already moved here. The perception of the Bar is that there has been an increase in the last five or ten years, in particular with English insurance firms moving to Dublin. There are some larger international firms, in particular in the funds sector, and some transnational firms which have moved to Dublin, but this, in truth, has been in small numbers.

Chairman: I apologise for cutting across Mr. Leonard. My query concerned actual practising barristers and law firms. It might be too soon to tell, but has he seen an increase in, or is there evidence of, people practising at the Bar in the UK deciding that perhaps they should relocate to Dublin? Will it be a little more lucrative, for want of a better word?

Mr. Patrick Leonard: Some barristers have moved from the United Kingdom to Dublin over the past five or ten years, although I suspect that is probably a result of family and personal links rather than business links. We have not yet seen a large influx of UK barristers who might seek, under the current equivalence regimes, to practise in Dublin. Only time will tell whether that will happen.

Mr. Paul McGarry: It is probably too early to say how it will play out in that sense. If the committee calls in the Law Society, it may need to ask its representatives a similar question. Anecdotally, we understand there are English firms considering Ireland as a place to set up some form of office, whether big or small. That can only be in circumstances in which they perceive the need to follow the client. If their clients are saying to them that Dublin is where they are headed and if the clients are significant, the firms are likely to want to continue to provide the services. If it means they must be in Dublin, they will be in Dublin.

Senators Daly and Craughwell raised a few other issues. I am not certain I can answer the questions they asked, particularly the question about citizenship and Senator Craughwell's point about the situation of the 100,000 UK citizens who happen to live in Northern Ireland. That area is extremely complex. On the one level, there is the current position of people born on the island on foot of the Good Friday Agreement arrangements. It remains to be seen what the outcome of the Brexit negotiations will be. The fact those born on the island of Ireland are all entitled to be Irish citizens means that, as a matter of citizenship, they are entitled to benefit from certain rights and obligations *qua* Irish citizens. However, if they move into other areas such as corporate structures, if they are involved in companies and the companies are domiciled or based in Northern Ireland post Brexit and Northern Ireland is part of the UK, there will be similar problems for them. Similarly, one can see how there would be issues in areas such as family law if they are subject to domiciliary standing regimes in the EU. However, I think it is the same for Irish citizens wherever they are in the UK, not just in Northern Ireland, in that sense. I do not know the answer to the question Senator Craughwell raised about the 100,000 UK citizens in Northern Ireland.

Senator Gerard P. Craughwell: The problem to which I alluded is that many of those 100,000 are married to people who are entitled to Irish passports, their children are entitled to Irish passports and, in the event of a dispute involving family law or company law, there are European citizens, who have certain rights and entitlements, who will not be able to exercise them. Conversely, there are British citizens or UK citizens who will not be able to exercise their rights. I see Mr. McGarry's point. It will be a nightmare.

Mr. Paul McGarry: It is a significant problem. Even the identification of that one issue, which on one level might not seem to be very significant in the overall scheme of things, shows how complex the situation will be. If one area like that can be identified, another can be. I refer to the tax treatment of people resident in one state but domiciled in another, for example, the UK and France or the UK and Ireland. One can imagine how complex things will get when one gets down to the nitty-gritty of the negotiations. I think we are all hopeful we do not end up with a hard Brexit. I do not think that would be any good for anyone, but I think the preparation we must make is one that assumes a hard Brexit. Anything better than that would be a bonus or a benefit. This is not really a political matter. Rather, it is a legal matter. The noises we are hearing are not encouraging.

From the lawyer's point of view, we are considering Brexit from a few different perspectives. We consider the macro constitutional issues affecting Northern Ireland, citizenship, the Border and the application of the Human Rights Act and the Good Friday Agreement in Northern Ireland. These are high principles of constitutional law and consideration. Then there are the practical considerations we outlined earlier regarding enforcement of judgments and difficulties for companies and people trading in and out of the UK and the legal systems and legal advice they will have to get. Then there is a third issue which we have been considering more specifically lately. I refer to the notion that one can market Ireland and use, as Mr. Leonard said, the fact we have all these advantages - a legal system not too dissimilar to the UK's, an English-speaking population, a common law system and the certainty this provides, particularly for Americans who are used to thinking about these things - and that this can then be incorporated by agencies such as the IDA into the sales pitch for all the other clients. As a result, we may end up with more lawyers coming here - we will certainly end up with more business here - and it will not be in anything like the short or medium term for barristers. It will be for people involved in law firms but, ultimately, if businesses and law firms can get their clients to incorporate things such as Irish law into their contracts and transactional arrangements, there will be a benefit down the line for us.

I do not see major problems with the capacity of the system as regards the legal advice at present. Again, that is more a matter for the solicitors' firms but, in our experience, the Irish firms have a very strong track record of providing advice in areas of technical EU law and some of the specific areas that have been mentioned: aircraft leasing, funds, derivatives, and technical and financial services. Similarly, regarding EU laws generally, they have very highly qualified people and there are plenty of very well-trained people coming through the system, so I do not really see there being a problem on a capacity level in providing that. I do not see it as being very different in real terms from the current position in London.

Chairman: If no one else is offering to contribute, I sincerely thank all four witnesses for coming forward. They have given us very significant food for thought and I commend them. They have given us real, tangible opportunities and solutions that we can feed into our end piece of work. As I mentioned to our previous panel, this is an evolving process and an evolving document. Things will change in the coming weeks for the witnesses as well as for us, so I ask them to feed anything into the committee as it comes up. We would very much appreciate keeping the engagement open. I thank them once again and look forward to talking to them again soon.

Sitting suspended at 3.27 p.m. and resumed in private session at 3.30 p.m.

The select committee adjourned at 3.40 p.m until 10 a.m. on Thursday, 11 May 2017.