

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

Dé Máirt, 2 Samhain 2021

Tuesday, 2 November 2021

Tháinig an Comhchoiste le chéile ag 12 p.m.

The Joint Committee met at 12 p.m.

Comhaltaí a bhí i láthair / Members present:

Seanadóirí / Senators	
Malcolm Byrne,	
Timmy Dooley,	
Robbie Gallagher,	
Róisín Garvey,	
Vincent P. Martin,	
Joe O'Reilly,	
Niall Ó Donnghaile.	

Senator Lisa Chambers sa Chathaoir / in the Chair.

Business of Select Committee

Senator Robbie Gallagher took the Chair.

Vice Chairman: Apologies have been received from Senator Flynn. I welcome all members to our meeting this afternoon of the Seanad Special Committee on the Withdrawal of the United Kingdom from the European Union.

We have some items of correspondence. Item A is from the meeting of 20 October of the Committee of the Executive, from Sinead McLaughlin, MLA, chairperson, and dated 21 October. Item B is a transcript of the meeting of the official report in the parliamentary building in Stormont, on 30 October.

The minutes for the public meeting of 19 October, on cross-Border healthcare and medicines for Ireland are to be adopted. Is that agreed? Agreed.

Impact of the EU-UK Trade and Cooperation Agreement: Economic and Social Research Institute

Vice Chairman: The agenda for today's meeting is the impact of the EU-UK Trade and Cooperation Agreement, TCA, on the Irish economy and Irish households and businesses, with an analysis of the wider aspects of Brexit for Ireland, and Brexit-related matters. The witnesses to be heard today are Dr. Alan Barrett, director of the Economic and Social and Research Institute, and Dr. Martina Lawless, associate research professor at the Economic and Social Research Institute.

Witnesses who are giving evidence from within the parliamentary precincts are protected by absolute privilege in respect of the evidence they give to the committee. This means a witness has a full defence in any defamation action for anything said at a committee meeting. However, witnesses are expected not to abuse this privilege and may be directed to cease giving evidence on an issue at the direction of the Chair. Witnesses should follow the direction of the Chair in this regard and are reminded of the long-standing parliamentary practice that no adverse commentary should be made against an identifiable third person or entity.

Witnesses who are giving evidence from a location outside the parliamentary precincts are asked to note they may not benefit from the same level of immunity from legal proceedings as a witness giving evidence from within the parliamentary precincts, and may consider it appropriate to take legal advice on this matter.

Privilege against defamation does not apply to the publication by witnesses outside of the proceedings of the committee of any matters arising from these set proceedings. Members are reminded of the long-standing parliamentary practice to the effect that they should not make charges against a person outside the Houses of the Oireachtas or an official either by name or in such a way as to make him or her identifiable.

I remind members that they are only allowed to participate in the meeting if they are physically located on the Leinster House campus. In this regard, prior to making their contributions to the meeting, all members must confirm they are on the grounds of Leinster House. Members participating in the committee meeting from a location outside of the parliamentary precincts

are asked to note the constitutional protections afforded to those participating from within the parliamentary precincts do not extend to them. No clear guidance can be given on whether, or the extent to which, their participation is covered by absolute privilege of a statutory nature and if their participation is covered by absolute privilege. If they are directed by the Chair to cease giving evidence in relation to a particular matter, they must respect that direction.

On Covid guidance, members in attendance are asked to exercise personal responsibility in protecting themselves and others from the risks of contracting Covid-19. They are strongly advised to practise good hand hygiene. Members will note every second seat has been removed to facilitate social distancing. I urge members not to move their chair from its current position. Members must also always maintain the appropriate level of social distancing during and after the meeting. Masks, preferably of a medical nature should be worn at all times at the meeting except when speaking. I ask those present for the full co-operation in that regard.

Before we invite the witnesses to make their opening statements, the Chairman, Deputy Lisa Chambers, will take the Chair now.

Deputy Lisa Chambers took the Chair.

Chairman: I thank the Vice Chairman, Senator Robbie Gallagher. I apologise to members and witnesses. We had another issue to attend to and Senator Gallagher stepped in. I will now hand over to Dr. Barrett for opening remarks.

Dr. Alan Barrett: I am going to hand straight over to Dr. Lawless who will deliver our opening statement.

Dr. Martina Lawless: We thank the committee for inviting us here today to discuss the impact Brexit and the trade and co-operation agreement between the EU and UK have been having on the Irish economy and the potential broader impacts of Brexit for Ireland into the future.

Throughout the trade negotiation process taking place during 2020, the risks inherent in a hard Brexit, where no deal was reached, were extensively discussed. The trade and co-operation agreement signed in December 2020 meant tariff and quota-free trade was retained between the UK and EU. It therefore avoided the most negative potential economic scenario of high tariffs impeding Irish trade with the UK. However, the agreement did not retain the *status quo* of free market access, and a range of non-tariff barriers in the form of new regulatory and customs procedures were put in place from the start of January 2021.

We have been examining the impact of the increased costs associated with these changes to trade requirements over the previous months. An important issue to take account of when examining recent trade figures is how to isolate the impact of Brexit from other factors, most specifically the changes in trade flows across the past year and a half as a result of the Covid-19 pandemic. We have been doing this by comparing trade flows between the UK and all EU member states with trade in the same products across all global trade partners to separate the UK-specific Brexit effect from the impact of Covid-19, which applies to international trade more widely. For overall trade between the UK and EU, the direct impact of Brexit has led to a 36% decline in aggregate EU imports from the UK and a fall in exports to the UK of 24%. The time path of the Brexit impact shows that the reductions in both directions of trade were particularly sharp in January and February followed by some recovery in March. The subsequent effects from April to July have been relatively stable.

The direct impact of Brexit estimated by our statistical model accounts for approximately

two thirds of the observed year-on-year change in trade with the remainder due to other factors such as Covid-19 disruptions to trade. For Ireland, we have estimated that the direct impact of Brexit has been to reduce imports coming from the UK to Ireland by 45%. For exports from Ireland to the UK, in contrast, we estimate that little of the reduction observed over the past year can be attributed solely to Brexit. However, although the impact of Brexit on total exports has so far been limited, some individual sectors have faced substantial reductions in their exports to Great Britain. In particular, the food and beverages sectors have experienced large falls in exports to Great Britain that can be linked directly to a Brexit impact with reductions of approximately 25% for food exports and more than 40% reduction in beverages exports in the first half of 2021.

The effects of Brexit in the first half of 2021 have, therefore, been quite asymmetric, with a much larger change in imports than in exports. The share of Ireland's imports from the UK was 33% in 2015 before the Brexit referendum and is now just 12%. The share of the UK in Irish exports has fallen from 14% to 8% in the same period. The uneven impact on imports rather than exports can be explained by the immediate introduction of customs requirements from the EU side but a more gradual phased-in approach on the UK side. This means that the risks posed by Brexit in terms of increased costs to Irish exporters have not yet fully materialised with further changes to customs requirements scheduled to be introduced by the UK in January and July 2022.

When we look at how Brexit has impacted trade, we find clearly that all of the decline in Irish-UK trade since January 2021 is driven by Great Britain. In contrast, trade between Ireland and Northern Ireland trade has increased considerably. This increase has been primarily on the side of imports from Northern Ireland, which have grown by close to 90% as a result of Brexit. In 2015, Northern Ireland accounted for approximately 1.5 per cent of both total Irish imports and exports. This year, the share of Northern Ireland has gone up to 5% of total Irish imports. The food and beverages sectors have shown particularly large increases in the shares of imports originating in Northern Ireland.

While the increase in Irish imports from Northern Ireland is significant, it does not offset the decline in trade with Great Britain. Trade has also been diverted to other members of the EU and to the rest of the world as shown by the changes in transport routes with the increase in direct shipping to Europe suggesting both a change in Irish supply chains and also avoidance of the UK landbridge. Data released by the CSO on volumes handled by Irish ports show that the tonnages going from Irish to UK ports in the second quarter of 2021 were down 18% compared to the second quarter of 2019 and a similar reduction in percentage terms for tonnages arriving. I am comparing those figures to 2019 to avoid the complicating factor of Covid-19 in the 2020 figures.

One risk, which we drew attention to in previous appearances before this committee, was how increased costs of trade might feed into consumer prices. Although inflation overall has picked up substantially in recent months, we note that food prices have been relatively stable. This was the area where concern was most focused regarding the impact of Brexit given the large share of grocery imports from the UK. This suggests that supply chain adjustment by firms have mitigated much of the potential risk in this particular area.

A number of potential long-run impacts of Brexit are still unknown, particularly in regard to regulatory divergence, which may further increase the cost of trade between the UK and the EU.

Limited international travel during the Covid-19 pandemic means that we have yet to see what, if any, changes Brexit might bring to migration patterns with restrictions on migration into the UK potentially leading to greater flows into Ireland. Likewise, with the UK outside of the EU Single Market, the attractiveness of Ireland to foreign direct investment, FDI, that may have located in the UK may increase further.

The growth in trade with Northern Ireland and its unique status in respect of access to both the EU and UK markets could feed into broader economic linkages across the island, with enhanced co-operation in economic and other areas being supported by the shared island initiatives of the Government. While this will be seen in positive terms by some, it should be acknowledged that others will see the increased trade as resulting from an obstacle imposed on Great Britain and Northern Ireland trade by the Northern Ireland protocol. It remains to be seen how the ongoing dispute with regard to the protocol will be resolved and whether any resulting changes to the protocol will see a partial reversal of the increased trade between Ireland and Northern Ireland. More generally on the protocol, continued uncertainty with regard to its operation is likely to be limiting the extent to which Northern Ireland can benefit from its unique status. A successful resolution could see increased investment in Northern Ireland and, in the long run, a strengthened Northern Ireland economy which would be positive for all on the island of Ireland.

We will be happy to take questions from the committee.

Senator Timmy Dooley: I thank Professor Lawless very much for the presentation and it is very interesting to see the data she has presented. If the distortion in trade coming from the UK in the research has shown an increase of 90% coming from the Six Counties, has this research revealed where the rest of that trade has come from to fill the gap created by the fall-off in activity from the UK?

She mentioned that there have been relatively similar volumes of trade between here and the UK but she nonetheless identified a significant drop in food and beverages. Have some services increased to maintain that equilibrium or has she observed anything in that particular area?

Dr. Martina Lawless: I thank the Senator. In terms of where the trade has diverted, there have been large increases in imports from Northern Ireland. There has been a relatively even spread between increases in imports from the rest of the EU and changes in imports from the rest of the world. We looked to see if trade had diverted from any one individual member state, such as France or Belgium, where links would be strong, but we were not able to identify it as being driven by an individual country. It seems the increase and the change in supply chains were relatively evenly spread.

As to where the trade has fallen particularly sharply in food and beverages, it is more the case that those particular sectors were notably impacted, whereas in other sectors we were not able to attribute fully any falls in trade to a definitively Brexit impact rather than other issues such Covid-19, which was reducing trade flows overall. We did not identify any particular areas where trade had increased.

The Senator mentioned services. I should highlight that this analysis is focused entirely on goods trade. The reason for this is that the data on goods trade is released monthly whereas we will not have any official data on services trade until early next year because it is only released on an annual basis.

Deputy Timmy Dooley: The increase in trade with the Six Counties is noteworthy. Has the ESRI looked at or has it any data on the capacity of companies within that region to continue to grow to meet our demand? It makes sense if goods can be sourced on the island of Ireland. It would be cheaper to get them here. I assume it is a matter of the capacity of these companies to grow to meet that demand. Has Professor Lawless seen any projected data on that area?

Dr. Martina Lawless: We have not but that is a good point. Sectors that have fallen in respect of sourcing imports from Great Britain are precisely the same food and beverage sectors where a large volume of trade has been reorientated to Northern Ireland.

Deputy Timmy Dooley: Perhaps Professor Lawless does not have this sort of granular data but is that because of forward planning by some of the large multinationals, which may have moved operations from the UK into the North of Ireland in advance of Brexit? This does not change from the perspective of her statistics but I am just trying to understand the mechanics of what has happened on the ground.

Dr. Martina Lawless: I guess we have not been able to dig into this data at the granular level as to how exactly companies have reorientated but the point made by the Senator on capacity in Northern Ireland very much links to what we have just said about the attractiveness of Northern Ireland to increased investment and its ability to take advantage, in a way, of this unique status of having joint access to two separate customs unions. The certainty over the protocol is perhaps almost limiting the ability of companies to fully take advantage of that. Many of these investments may need certainty over the longer term. We can already see the big increase in trade coming from Northern Ireland.

Senator Timmy Dooley: A 90% increase in a relatively short period of time when one has had all the other factors at play, would signal a positive for the economy in the North of Ireland, recognising the protocol still provides for access to the UK market. I thank Professor Lawless. It is useful work.

Dr. Alan Barrett: I apologise if I misunderstood this, but presumably a significant proportion of the output that has been created in Northern Ireland, which is now coming south, might previously have been going to the United Kingdom. The production has not necessarily increased so dramatically. The longer run question comes up-----

Senator Timmy Dooley: If there has been a significant fall-off on our exports of food and beverages into the UK, it will have to get that produce from somewhere and will not be able to do so from within the European Union.

Dr. Alan Barrett: One of the tricky things about straight statistics is it is complicated making sure they add up over a range of places. Senator Dooley pitched it quite sensibly in the sense this can only be positive from an economic point of view. Some could argue what was happening previously was the most efficient and good way of running things. Then one has this artificial barrier placed in trade in order that one could have a distortion. Some would argue it is sub-optimal in some shape or form, because, it is only arising from these. We need to see over time precisely how it works out.

Senator Timmy Dooley: We reflect on that from a political perspective by saying that is the decision Britain has taken. That border has appeared as a result of its actions and not ours.

Dr. Alan Barrett: Indeed, but even apart from that, something we will need to tease out over time is, very often, people trade in a particular location and something might spur them to

do something they would not otherwise have done, which turns out to be quite beneficial.

Deputy Timmy Dooley: It takes time to see the trail of that.

Dr. Alan Barrett: That is essentially it, but in terms of working out the overall of whether this is an economic positive or distortion, we still need to see how things unfold over time. Is it in some sense that actions have now been prompted which turn out to be quite beneficial all around? I do not know if I am characterising that correctly.

Deputy Timmy Dooley: I think what Dr. Barrett is saying is this is interim data based on a Brexit event that has yet to be fully understood.

Dr. Alan Barrett: That is a good way of characterising it and I will overstate it now, but to the extent that sometimes some people of a particular persuasion look at the statistics and say some sort of wonderful, new, all-island entity has been created, but very often, there can be initial reactions and things will smooth out over time. We have to wait and see where exactly it lands.

Senator Robbie Gallagher: I welcome both the witnesses. I found the information and the statistics presented to us quite startling. From a business perspective, I am just trying to get into the shoes of the Northern Ireland company that found, through Brexit, it was difficult to trade on the mainland, a term some would like to use. Trade has been increased with the Republic on the same island. From a profit perspective, one would imagine it would be more profitable for those same Northern Ireland companies to be trading on the same island, from the cost of getting goods across the Irish Sea. Was that business always there? Is it only now they are realising that business was always there? One would imagine, from a business and cost-analysis perspective, the closer to home one's market is, the more desirable and profitable that would be. What are the witnesses' opinion on that aspect?

When one looks at Northern Ireland post-Brexit, one would imagine the best of both worlds, as Dr. Lawless already stated, in that it can have unencumbered trade with the UK and any trade deals the UK may sign up to going forward and trade within the EU. I do not know if that penny has dropped yet with some people in Northern Ireland. It would appear to have serious potential.

The only downside to that is this ongoing dispute on the protocol. Some would say it is in the UK Government's political advantage to keep this on the boil over a period of time. I fear this thing will never go away and politically, it seems to be a very advantageous drum to be beaten, from politics at home in the UK. How will that scenario play out eventually? One would imagine if it is good for Northern Ireland, it will be good for the entire island and that the whole island could benefit from this new arrangement. The only thing holding this back is the protocol. I do not know what the witnesses' thoughts are on that.

Dr. Martina Lawless: The first point was to ask whether the business was always there or why Northern Ireland businesses were not taking up the greatest share of Irish imports. It is important to realise it has become more expensive and difficult for Ireland to import from Great Britain. Much of the increase the Deputy has seen in trade with Northern Ireland has not been so much that Northern Ireland businesses were not always taking advantage of opportunities in Ireland, but more that businesses in Ireland have now discovered it is cheaper, easier and more convenient to deal with companies in Northern Ireland than in Great Britain. We have particularly noticed that much of the shift or the sectors that have fallen most in terms of what we are

bringing in from Great Britain, food and beverages, are the ones in which we have seen the biggest increase from Northern Ireland. Much of the diversion to Northern Ireland has been as a result of it being more difficult to source goods from Great Britain, rather than that Northern Ireland firms were not already taking advantage there.

As we should have pointed out in the opening statement, Northern Ireland is a relatively small part of the UK as a whole. The large increase in trade from Northern Ireland of 90% is a 90% increase of the 10% of trade. It does not in any way offset the trade falls from the much larger economic partner. However, it shows Northern Ireland is uniquely placed in that the terms of the protocol allow it to continue selling and increase its sales not just into Ireland, but all of the EU, where firms previously may have been sourcing things from Great Britain, while also maintaining its market access to the latter. If the protocol works, as everybody would hope it does, that should put Northern Ireland businesses in a really strong position to attract extra investment and sell into both markets.

The one gap we have in our data analysis is, because, trade between Northern Ireland and Great Britain is internal and not international, it is not reflected in these numbers. We cannot say that some of this trade that has increased from Northern Ireland to Ireland is because trade has fallen between Northern Ireland and Great Britain. We do not know that is the case at all nor to what extent trade from Britain to Northern Ireland has changed. As the data are collected in a different way for these internal flows, it will be into the early part of next year, when the annual surveys of Northern Ireland businesses are completed. We can get some small sense from transport statistics available on a more up-to-date basis, but they do not tell us precisely what values are being imported into Northern Ireland. We have the trade movements. One needs to add up where the trade is going. We have three or four of the angles, but we do not have the connection between Northern Ireland and Great Britain to fully see whether overall trade has changed or just been reallocated across the different routes.

Senator Niall Ó Donnghaile: I thank our guests. This is a fluid situation and those are the dynamics with which we are dealing. I agree regarding the gap in information. I am sure the gap in respect of trade from the North of Ireland into Britain and *vice versa* is frustrating from an economic perspective. It is also politically frustrating for us as Oireachtas Members. It is to be hoped that we can get to the point where it is no longer a case of cursing in the dark but, rather, lighting a candle in terms of some of those statistics informing all of our work going forward.

My colleagues have covered many of the issues I wished to raise. This may seem like an obvious question but I want to put it to the witnesses anyway. In the context of the figure in respect of the increase in trade North to South, would that have happened without the protocol? I appreciate that probably seems obvious, but it is important that we remind ourselves of the dynamics of the situation we are in and the insulation and protections that the protocol offers to businesses here. Reference was made to the 90% increase and where that sits in the context of trade falling or increasing elsewhere. How much room is there to grow that trade through a dedicated piece of work that promotes the protocol and informs businesses about it? Is it something that could be grown exponentially if dedicated supports, plans and processes are put in place?

Dr. Martina Lawless: As regards whether trade would have grown at the same rate in the absence of the protocol, it is clear it would not. We have seen from the fall in trade between Ireland and Great Britain that the new obstacles put in place, such as the new costs of data, customs procedures and so on, have been an impediment to trade. Those are a result of Brexit.

Essentially, the protocol protects businesses in Northern Ireland from the negative impact of Brexit. That is very much an increase in trade that would not have occurred if the protocol were not in place; in fact, it would have been quite the opposite. Northern Ireland trade would have fallen significantly if the protocol was not in place to maintain the access of Northern Ireland to both the EU and UK markets.

As regards the potential for Northern Ireland to grow further, I have not done any specific work on that. It is an issue at which we hope to look. I do not wish to speculate by giving precise numbers but there is a very strong case that Northern Ireland is in a good position to benefit from this unique situation of having easy access to two large markets. If the uncertainty relating to the operation and permanency of the protocol can be put to one side, the economic benefits of Northern Ireland having access to both these markets would be significant. We are clear in terms of making it an attractive place to invest-----

(Interruptions).

Dr. Alan Barrett: To add to that, it comes back to the question posed by Senator Gallagher in a sort of political way as to whether the British Government had an incentive in some way to maintain uncertainty in respect of the protocol. Dr. Lawless and I will leave the political slant to the politicians.

Senator Robbie Gallagher: Dr. Barrett may stick to that promise.

Dr. Alan Barrett: We will focus on what we are good at, if I can put it like that. I know the committee has engaged with businesses north and south of the Border and everything like that. Of course, we in the ESRI hear the very same thing, which is that all that businesses want to know is exactly what are the arrangements with which they must deal on a long-term basis, subject to these being reasonably sensible. It is about certainty and knowing what has to be done. Their view is that they will then engage and trade and do all the positive things they need to do. It is interesting to consider that the protocol is assisting with trade, as Dr. Lawless mentioned, and, in a sense, insulating Northern Ireland from the worst impacts of Brexit in terms of trade disruption. The investment should be the next wave of this. Northern Ireland should be a very attractive place to invest for people within Northern Ireland or from the Republic of Ireland or internationally. The fact that it is a place from which someone can trade into two markets should be very positive as well. However, the great misfortune in the current situation is the uncertainty in respect of the operation of the protocol. There are obvious uncertainties in respect of how this plays out immediately. There is the issue of the vote in 2024. These are unfortunate circumstances. If politicians North and South or wherever can collectively achieve greater certainty in respect of the protocol, the economic benefit of that could be considerable.

Senator Róisín Garvey: I thank our guests for their time. I have always admired the work of the ESRI and, therefore, it is a pleasure and an honour to have Dr. Barrett and Dr. Lawless in the room with us. When I hear Brexit, I also think about climate and carbon footprint. Is work being done to consider not just the economic benefits but also the environmental benefits of this cross-Border support for businesses? There is a significant opportunity associated with the much lower carbon footprint of selling products to the North or bringing goods from the North down here compared with that of importing goods from other countries, such as England, mainland Europe, China and all the other places we import mad things from. There is a significant opportunity there as COP26 takes place and the climate emergency becomes clear. Is anybody thinking about the fact that this can be a positive if the protocol is used to promote businesses

and give householders and businesses an opportunity to be part of the solution and stop buying stuff from everywhere else because they can get it from businesses in Northern Ireland or in southern Ireland. That should be part of this discussion. Brexit has happened and we now need to look at positive ways of working with what we have. We are missing a trick in respect of the carbon footprint and the benefits of an all-island promotion of business. I am not sure if all the businesses in the North are aware of all the stuff they can access from the South and *vice versa* and I do not know if anything is being done about that.

Dr. Alan Barrett: It is a very interesting question, which prompts several thoughts. The Senator asked the question specifically in the context of the protocol and trade and it is clear there are implications there, but what has come about in the past year or two is an increased discussion in respect of the shared island, if I can use that phrase, or on an all-island basis. As everyone in the room will be aware, discussing environmental and climate issues even at a national level does not make a lot of sense as these are global issues. However, it is certainly the case that the craziness of discussing issues such as climate and biodiversity on a 26-county basis and a six-county basis has been emerging more strongly. That was presented most starkly to the ESRI in the context of an environmental model we started developing - obviously, we have been doing economic modelling for the Twenty-six Counties for many years - that linked macroeconomics in the Twenty-six Counties or the State of Ireland to greenhouse gas emissions. It was pointed out what a limited way of looking at this issue that is, that we should be looking at it, at least, on a 32-county basis. We really should be thinking about issues such as biodiversity, water quality and a host of other environmental issues on a 32-county basis. I do not know if it is an effect of Brexit or the shared island unit or another matter, but we in the ESRI are certainly being prompted much more to think about those sort of issues on that basis. Of course, whatever about the political sensitivities, North and South, everybody can agree that it is much more sensible to consider matters such as water quality and biodiversity on a 32-county basis. We are trying to do our bit in terms of the analysis and the modelling on that sort of a basis. Our job then is to feed those results into the policy sphere. For us, that normally involves feeding them into the policy sphere in Dublin, be that through the Oireachtas or Departments or whatever, but we are certainly trying to up our game in informing Northern Ireland policymakers as well to bring greater rationality to it. That is not a direct answer to the Senator's question but I hope she will appreciate that it is prompting interesting thoughts more generally.

Senator Róisín Garvey: That answer went down a different avenue than the one in which I was going. Of course, water quality and biodiversity is a whole other huge question. That is not what I was probing. For example, through Brexit, we have a lot of statistics on imports and exports with England. I do not know if anyone is using those figures to see how we can be more resilient and sustainable as a country. At one of this committee's first meetings, I mentioned that we were importing 110,000 tonnes of potatoes, between seed potatoes from Scotland and edible potatoes from England. I would love to see us using the statistics we have gathered from Brexit to see how the whole island, the Republic and the North, could become more resilient. We have to help each other out. It is one island, irrespective of borders and with the climate emergency, we will have to support each other.

My first question asked if we were doing anything to promote businesses North and South, looking at carbon reduction rather than importing everything. It is a whole other thing, that is right, and it is different from water quality and biodiversity. We could have a whole other meeting about that.

Dr. Alan Barrett: I do not know if we have information on the specific trade roles and

whether there is sustainability enhancement. While we have talked about the positive growth of trade on the island of Ireland, there is also a diversion of trade away from the United Kingdom. Some of the benefit that might be gained through more condensed trade might be lost because we are not trading as cohesively in terms of the two islands together.

Dr. Martina Lawless: Unfortunately, the opposite is probably the case. Northern Ireland as a relatively small economic unit is not able to replace all the trade that we were getting in from Great Britain and some of that has been diverted further afield. When we look at trade flows, we are always very conscious of distance. Generally, trading over shorter distances is much more efficient and cheaper. We have considered distance not so much from the perspective of carbon footprint, but more as an actual cost of getting the goods to market etc., although the two are obviously very closely correlated and it is an area that could be gone into in greater depth.

Senator Róisín Garvey: That is great. Is it a commitment? The climate is affecting every Department. If the ESRI is saying it has not considered that before, I would love to hear that it is something not that it could do but that it will do. From talking to the Department of Enterprise, Trade and Employment and doing loads of research, there is a huge issue with small businesses knowing their carbon footprints. There is a whole body of work that needs to be done around that. We did all this work on Brexit and collected all the statistics, and we must have paid loads of consultants loads of money to figure out what we have been importing and exporting with our neighbours across the water, so it would be great to see that being used to help us to deal with the climate emergency. There is an economic cost but as Larry Fink said, “climate risk is investment risk”. These days, nothing is economically viable unless it is climate resilient. It would be really good to see that commitment.

Senator Joe O’Reilly: I apologise because I did not hear the opening statements live. I welcome Dr. Barrett and Dr. Lawless and thank them for being here. It is a fascinating development, particularly for a person from the Border region, to see this great increase in North-South trade. I take the point about there being a similar diminution in east-west trade, because as Dr. Lawless said, Northern Ireland cannot deal with every requirement and there is also a focus outside to Europe. It is a fascinating development. It is amazing how events change things. Who would have anticipated this some time ago? I take the point that the ESRI is not in the business of discussing the politics but there are obvious political implications.

There was tangential reference earlier to the regulatory changes around veterinary standards and harmonisation. It suggests the Commissioner, Mr. Šefčovič, has removed 80% of the east-west problems and difficulties with the protocol and the flow of trade. This may have been discussed, and I have the disadvantage of not having heard all of the earlier discussion, but I would be fascinated to know how Mr. Šefčovič’s interventions could affect the new North-South dynamic. Could it refocus some of the trade? If so, how much? I know it is all very speculative.

If the doomsday nuclear option of Article 16 is pressed, what are some of the implications? It might be too amorphous or unclear but I am interested.

Will the witnesses speculate on what the implications will be for the Border region? Historically, because of the conflict and all that went with it, the Border region did not develop as well as the rest of the country and there is a differential in income, prosperity and opportunity. Does the new dynamic or, say, dispensation have great potential for the Border region?

It is great that the witnesses are here. I read their paper just now and it is fascinating. We were aware of it in broad-stroke terms but the sheer volume and extent of the shift is phenom-

enal and raises questions on east-west trade. When we had informal meetings with UK colleagues, both sides would stress the importance of our trade with the UK, but this is a whole new dynamic. I am interested in how it will impact the area I come from and the island in general in socioeconomic terms. I do not expect the witnesses to comment on the political play-out. The paper did refer to the Taoiseach's special fund, the shared island fund, and how there may be linkages between that and some industrial development or stimulation of opportunity in the context of improved trade. How might that play out?

Dr. Martina Lawless: The Senator makes an important point. There has been a very substantial and quite quick change to a lot of trade patterns. This has happened with astonishingly little disruption, and certainly not visible disruption to consumers, by way of interruptions to supplies. That speaks very strongly also to the resilience and flexibility of the businesses dealing with it and to much of the preparations that had been put in place by transport authorities and the Revenue Commissioners preparing for this eventuality before they even fully understood what was going to happen. The deal was signed very late in the day, in December of 2020, so people were preparing for something they did not quite know the shape of, but this just shows a great deal of preparation and work had been put in place. The level of disruption was surprisingly minimal given the extent of the shifts.

We saw in our numbers where we mentioned that the falls in trade were particularly stark in January and February where people were, perhaps, learning a bit about the processes and trying to avoid or delay some transactions while they got to grips with the new procedures, but by March or April trade had gone back up a little bit and has since stabilised. Perhaps that is the extent of the Brexit impact but there was a little bit of an extra effect in January and February. This largely speaks to a very big change in economic relationships which is going very smoothly.

On the Great Britain to Northern Ireland checks, which have obviously been the big focus of political attention, while there have been many moves to lighten those checks, there were many grace periods already in place. Many of the decisions talked about now are not so much about removing checks but about the continuation in perpetuity of the grace periods that had been in place. As I said, we do not have as much information, or it is very limited, on the trade flows between Northern Ireland and Great Britain. There is therefore something of a gap in our knowledge of all of the different directions of trade there.

In that context it is interesting that what we have seen of trade between Ireland and Northern Ireland is a very large increase in imports from Northern Ireland coming into Ireland. This seems to be very much the attractiveness of sourcing products in Northern Ireland rather than in Great Britain because of the increased checks that have been put in place there. We have seen some increase in trade going from Ireland to Northern Ireland but it has increased by a much smaller amount. This suggests that goods going into Northern Ireland are still being sourced in perhaps more or less the same direction. This suggests - this is somewhat speculative as I do not have data on what is going from Great Britain into Northern Ireland - that most of that trade is still flowing reasonably smoothly because we have not seen any great shift in supply in terms of Northern Ireland massively increasing what it buys from Ireland and the EU to replace goods from Great Britain. All of the change in trade from Northern Ireland has been in respect of it selling more into Ireland and the EU markets rather than it having to buy more from these markets. This suggests Northern Ireland is trading smoothly in both directions, which is very much what we are talking about in regard to Northern Ireland having the best of both worlds and having access to both economic areas at the same time.

On the Border region, any increased investment in Northern Ireland, taking advantage of its special access to both markets, would have quite clear positive spillover benefits to all of the surrounding Border region in terms of the supply linkages that exist between neighbouring counties and the kind of free labour market that also exists in that area. Any increased investment and growth in the Northern Ireland economy is very much to the entire benefit of the island, and especially of benefit perhaps to the Border counties where there would be some kind of positive spillover and where it would impact more directly.

Senator Joe O'Reilly: I do not want to interrupt Professor Barrett but does Professor Lawless think the new trading dynamic and business between North and South will be more North to South than South to North, but will remain significant in both ways, and that it will stand up to a resolution of the protocol and to the latest initiatives, for example, by the EU, or does Professor Lawless have any sense of what might happen there?

Dr. Martina Lawless: I think it will because many of the-----

Senator Joe O'Reilly: I would like to believe it would.

Dr. Martina Lawless: ----- current issues under negotiation are in respect of the continuation of the grace periods that have been in place for grocery and agricultural products. I do not see that there should be such a dramatic change in what happens with Great Britain to Northern Ireland trade coming from the current negotiations of the protocol and every single detail of it. Largely, there have been grace periods in checks for grocery and other particular products and the current negotiations are to keep those in place permanently, whereas they had been due to expire.

Senator Joe O'Reilly: Does Professor Lawless think this trade could resist the outcome of these negotiations? If the nuclear option or the dreaded Article 16 were applied by the UK, would this accelerate this trade, increase it or have any implications for it?

Dr. Martina Lawless: This largely depends upon on what exact-----

Senator Joe O'Reilly: Form it took?

Dr. Martina Lawless: There are ways in which Article 16 can be called into place with limited targeted restrictions on individual products or sectors. Triggering Article 16 is more a continuum than a kind of nuclear button. Obviously, anything that took a very real extreme position and that took Northern Ireland out of the EU customs area would open-----

Senator Joe O'Reilly: Further opportunities.

Dr. Martina Lawless: -----the worst fears we have had during the initial Brexit discussion as to what exactly would happen in respect of the need for checks on the Ireland-Northern Ireland Border. That would very much be returning to the worst-case scenarios we had in the initial periods. We will see. Economically, that would be in absolutely nobody's interests.

Senator Joe O'Reilly: Professor Lawless is effectively saying it has been an achievement that we have kept the food supply here, the shelves full and there has been inflation, but not too much, in the food sector in the context of Brexit.

Dr. Martina Lawless: The smooth transition to this quite dramatic change in trade relationships with a very major trading partner is testament to the level of preparation and planning that was put in place.

Senator Joe O'Reilly: That is good.

Dr. Alan Barrett: I will make a number of quick points. Incidentally, I am sure no offence was intended but Senator O'Reilly referred to me as professor and to my colleague as-----

Senator Joe O'Reilly: Yes, I noticed that since and I said to myself I would not make an issue of it.

Dr. Alan Barrett: Picking up on the very interesting question on the Border region, there are a range of interesting possibilities here. To draw out some of the things we have been discussing in the diversion of trade and this new openness, if we can put it like that, in the possibilities of trade on the island, it is certainly possible that would have a generalised effect across the Border and at least in the Border region. Much of the Border region is rural in nature and has other disadvantages that are always going to be difficult, in a sense, to offset.

For many years - I am sure everybody in the room is probably familiar with projects such as these - there were projects such as the Dublin-Belfast economic corridor, where, as long as I have been discussing economics in Ireland, there was always a view that there was great potential to develop the corridor between Belfast and Dublin, being somewhat focused on Dundalk. Nevertheless, if you have seen the presentations and have looked at the actual population volume in the area, with proper transport links and everything like that, you can imagine that what we are discussing and describing today would very much give impetus to something like that. Between Letterkenny and Derry, for example, where there are substantial towns and urban areas, there is the idea, in a cross-Border sense, of a critical mass of activity in these areas. You can almost imagine them becoming growth nodes, if I can use that kind of phrase.

The hope would be that there would be positive economic benefits spread throughout the region, but it would be a bit unrealistic to think this would be completely the case, in the same way that growth does not happen uniformly across regions in any shape or form. I will give those two examples, however, as being areas where real possibilities would exist.

Chairman: I thank the professors. I neglected at the outset to say we have received apologies from Senators Byrne and Wall who could not be here with us today and were anxious their apologies would be conveyed by me. All of my colleagues have asked questions at this point. I do not believe I have much further to add as all of the areas have been covered very well. We were keen to have the witnesses back. The evidence provided to the committee by the ESRI, prior to us publishing our interim report in July, was crucial to our report, in particular, Dr. Barrett's strong message that the protocol would have great potential if given certainty. Both witnesses have reiterated that point today. We have engaged with parliamentary colleagues in Northern Ireland on that issue. An important message coming from the Oireachtas is that this is not just about serving the interests of those in Ireland, but also serving the interests of the people of Northern Ireland. There are significant benefits in that regard.

I agree with Dr. Lawless; it is remarkable that we have had so little disruption. Given the doomsday planning and worst-case scenario planning we were doing, it is a credit to the Government and the businesses on the ground that those warnings were taken seriously. Witnesses said in their opening remarks that the ESRI was considering the food and beverage sector and the price inflation of food. Now that the ESRI has had time to establish what is happening, are there other areas of interests where there may be potential vulnerability for Ireland? That is my final question before we wrap up the meeting.

Dr. Martina Lawless: I would still focus on the food and beverage sector in terms of the impacts on the exporters. As I said, the implementation of Brexit has been somewhat uneven. Checks that were supposed to be introduced by the UK Government in July and October have not yet happened. On the exporter side, there are still some risks to Irish firms that are reliant on the British market. Those checks could further increase the cost of trade on them. Therefore, we may not have seen the full impact on the export side.

Chairman: We will make sure that point is reflected in our recommendations. Our plan is to issue our final report in early December. The evidence given today in answer to our questions will form a significant part of that report. It is important for us to consider what we need to keep an eye on in the coming months and years. On behalf of the committee, I extend our thanks-----

Senator Joe O'Reilly: May I make one brief intervention?

Chairman: Be brief.

Senator Joe O'Reilly: Absolutely. I apologise to Professor Lawless - my notes were wrong - for not using her proper title from the outset of the discussion.

Chairman: That is no problem, Senator O'Reilly. On behalf of the committee, I thank the witnesses for giving their time to us; it is much appreciated. We look forward to continued engagement over the coming weeks and months. We will, of course, forward a copy of the report to the witnesses when it is published in early December.

The Committee for the Executive Office of the Northern Ireland Assembly has provided a number of dates, which we have received, in order for committee members to meet us in Leinster House.

Our next meeting will be on Wednesday, 10 November, an engagement with the Oireachtas Joint Committee on European Union Affairs when we will meet with the delegation from the Protocol on Ireland-Northern Ireland Sub-Committee of the House of Lords.

The select committee adjourned at 1.13 p.m. until 9.30 a.m. on Wednesday, 10 November 2021.