

# DÁIL ÉIREANN

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## AN COMHCHOISTE UM POIST, FIONTAIR AGUS NUÁLAÍOCHT

## JOINT COMMITTEE ON JOBS, ENTERPRISE AND INNOVATION

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*Dé Máirt, 8 Samhain 2016*

*Tuesday, 8 November 2016*

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The Joint Committee met at 4.30 p.m.

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### MEMBERS PRESENT:

Deputy Niall Collins,	Senator Aidan Davitt,
Deputy Tom Neville,	Senator Paul Gavan,
Deputy Bríd Smith,	Senator James Reilly.

In attendance: Deputy Eamon Scanlon and Senator Pádraig Ó Céidigh.

DEPUTY MARY BUTLER IN THE CHAIR.

## **Business of Joint Committee**

**Chairman:** Apologies have been received from Deputies Stephen S. Donnelly and Maurice Quinlivan. I propose that we go into private session. Is that agreed? Agreed.

*The joint committee went into private session at 4.35 p.m. and resumed in public session at 5.50 p.m.*

## **Scrutiny of EU Legislative Proposals**

**Chairman:** It is proposed that COM (2016) 593 warrants further scrutiny and that the committee seeks a detailed briefing from the Department following the discussion of the proposal by the European working group on intellectual property copyright. Is that agreed? Agreed. It is proposed that COM (2016) 595 and COM (2016) 596 also warrant further scrutiny and that a detailed briefing note on both be requested. Is that agreed? Agreed. It is proposed that COM (2016) 443, COM (2016) 444 and COM (2016) 470 also warrant further scrutiny and that the committee, as a first step, will request a briefing from departmental officials. Is that agreed? Agreed.

**Deputy Bríd Smith:** Just to reiterate that we agreed we could make suggestions regarding briefings from other bodies, including environmentalists and so forth, on CETA and that briefings would not just be confined to the Department or the library service. That is to be decided at our next meeting. Is that correct?

**Chairman:** Subject to the agreement of the members, Deputy Smith can set down a proposal on who she would like to invite to appear before the committee.

**Deputy Bríd Smith:** Do I have to give that proposal to the Chairman now?

**Chairman:** No, the Deputy can submit that in the next couple of weeks.

**Deputy Bríd Smith:** Fine.

**Chairman:** We will suspend briefly to allow witnesses take their seats.

*Sitting suspended at 5.52 p.m. and resumed at 5.54 p.m.*

## **Economic Impact of Brexit: Discussion (Resumed)**

**Chairman:** I wish to apologise to apologise to our guests for keeping them waiting. Unfortunately, we had a lot of housekeeping matters to go through and we had to do some pre-legislative scrutiny on a Bill which took longer than expected. I thank the witnesses for their patience. I remind members, visitors and those in the Public Gallery to ensure that their mobile phones are switched off or are on aeroplane mode for the duration of the meeting as they interfere with the broadcasting equipment, even while on silent mode.

I welcome from IBEC Mr. Gerard Brady, economist, and Mr. Arnold Dillon, Brexit campaign leader; from the British Irish Chamber of Commerce Mr. John McGrane, director gen-

eral, and Ms Katie Daughen, head of Brexit research and services; and from Chambers Ireland Mr. Ian Talbot, chief executive, and Mr. Paddy Malone, public relations officer with Dundalk Chamber of Commerce. Our guests are here to discuss the likely economic impact of Brexit, with particular emphasis on jobs and enterprise and the steps being taken to mitigate these risks.

Before we commence, I am required to point out 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 this committee. However, if they are directed by the committee to cease giving evidence on a particular matter and continue to so do, 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 are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise nor 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 Houses or an official either by name or in such a way as to make him or her identifiable.

I remind our guests that their presentations should be no more than five minutes in duration if possible. Members have been given copies of the presentations submitted by today's attendees. I now invite Mr. Arnold Dillon to make his presentation to the committee.

**Mr. Arnold Dillon:** Thank you Chairman. 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 right across the country and in all sectors as they manage the immediate currency shock and plan for the potential significant disruption that Brexit could bring to existing trading relationships.

Many individual businesses have been slow to talk publicly but the feedback from our members is clear and unambiguous. Businesses are under threat and jobs have already been lost. While companies are moving quickly to manage severe competitive pressures, an urgent, targeted national response is also required. The exporting industries most affected by the sterling fall are typically jobs-intensive and deeply embedded in local economies. This adds to the risk that some parts of the country will be disproportionately hit. A review of the historical exchange rate and agrifood exports, for example, shows that a 1% weakness in sterling results in a 0.7% drop in Irish exports to the UK. This has already begun. Our most recent trade figures for the year to August showed the value of Irish food exports to the UK fell by 8.1% annually. This represents an 18 percentage point downturn on the 10% growth in value recorded in 2015. This fall accelerated to 14.5% annually in the two months since the referendum and has hit all categories. If sterling stays at the £0.90 mark to the euro for a protracted period, which is quite likely, this is likely to translate into losses of over €700 million in food exports and potentially about 7,500 Irish jobs. The retail sector is also particularly exposed as we approach the crucial Christmas trading period. Currency movements have significantly increased the attractiveness of shopping in the North or with UK online retailers, thus depriving domestic retailers of important business.

In the brief time I have today, I want to outline some practical steps we need to take domestically to protect and advance Irish interests during this period of great uncertainty. In the first instance, we need to focus on areas that are within our control. Budget 2017 introduced some welcome measures to address the competitiveness challenge of Brexit but a more comprehensive policy response is now required. IBEC will be setting out key domestic policy priorities

for the Government over the coming days. First, it is vital that greater efforts are made to help viable companies to come through the Brexit transition, retain UK market share and diversify. This could run up against state aid obstacles in the short term but Ireland will need to make sure its special case is heard. Second, an intense focus on cost competitiveness is required. As sterling drops and competitive pressures increase we need to be wary of runaway increases in labour costs and take strategic decisions which could avoid increasing already high costs on businesses in areas such as energy, regulation and insurance. Third, potential trade restrictions post-Brexit and the more preferable tax treatment of small and medium enterprises, SMEs, in the UK raise the possibility of Irish SMEs servicing that market from within the UK itself rather than by exporting from Ireland. As such, the need to level the playing field in the tax offering for indigenous business has never been more urgent. Whereas changes in the budget were welcome, they did not go far enough. 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 a quality education system, public transport network, housing and public services needed to attract new investment and compete in a post-Brexit world.

Finally, the risks from Brexit will weigh heavily on the regions. If we do not wish inequality of economic activity to expand post-Brexit we will need to address infrastructure deficits in the regions. Key projects need to be expedited. My colleague, Mr. Gerard Brady from the IBEC economics team, is with me today and will be happy to talk through some of these issues in more detail. Early next year, the UK will trigger Article 50 and begin formal exit negotiations. Ireland must play a central, collaborative and constructive role in what is likely to be a fraught process. A hard Brexit, with the imposition of tariffs, restrictive rules on migration and the resulting disruption to trade flows, investment and the regulatory environment, would be deeply damaging to business and economic interests. For this reason it is important to Irish business that the UK retains access to the single market on grounds as close to full membership as possible. We need to support these efforts in negotiations. The political settlement in the North needs to be afforded a special status, 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. Notwithstanding the profound challenges that Brexit presents, it is vital that we sustain and build on the very positive and mutually beneficial relationship we currently enjoy with the UK. I thank the committee for its time and we look forward to answering questions.

**Mr. John McGrane:** I thank the members of the committee for inviting me to give evidence on this very important issue. For those who do not know us, the British Irish Chamber of Commerce is the only organisation representing business activities with interests across our two islands. Our *raison d'être* is to champion, protect and grow the trade between the UK and Ireland, which is worth in excess of €60 billion a year and sustains over 400,000 jobs, evenly spread across Britain and Ireland. The UK is Ireland's largest two-way trading partner, supplying 34% of our imports and taking 16% of our exports. The British Irish Chamber of Commerce works on behalf of its members, large and small, North, South, east and west, connecting them to fresh business opportunities between and from these two islands, growing trade, investment and jobs. We want to ensure that this work continues beyond the current political crisis that now faces us.

As the only organisation representing business interests in both Ireland and the UK, we are uniquely placed to see both the opportunities and challenges that Brexit provides, and there are both. Currently we are seeing one of the challenges take shape in the form of the collapse in the value of sterling. Fluctuations in currency are nothing new but the speed with which sterling has declined has caused a significant challenge for our exporters, particularly those in the

agrifood sector who already operate with very tight margins. The reality is that governments cannot magic away the serious impact of sterling's weakening on Irish exporters. It is also not realistic to expect that businesses can simply open new markets that are slow, expensive and just plain awkward to trade with, compared with the ease of doing business with our nearest and most similar neighbours. This is why I believe the best response to this challenge is to help our trading businesses to do even more together to offset unit value changes. Most of them have scope to do just that if we can use our support resources to connect them to more partners, as my colleagues in the British Irish Chamber of Commerce are actively doing.

At the same time, the chamber is also working to help Irish businesses to secure a base within their nearest neighbour to protect themselves from any future barriers to trading with the UK. With 53% of the UK's imports already coming from EU member states, there is substantial opportunity for Irish suppliers to replace some of that trade on a tariff-free basis by establishing directly within the UK sooner rather than later. We should not waste a good crisis and there are certainly opportunities from the UK's decision to leave the EU that Ireland should be availing of. In the short term, we are assisting UK firms to manage their need to secure an in-EU base for the future by establishing relationships or a base for their business activities within Ireland, as the best alternative base among the various bids for their business by competing EU countries. We are also assisting other foreign direct investors to prefer Ireland over alternative locations. We are working to assist Irish universities to benefit by partnering with British and Northern Irish universities to win valuable EU-funded research contracts for the future.

We need to have a well-founded national strategic plan if we are to take best advantage of these opportunities. Brexit clearly hands Ireland a role to be a key base for both global foreign direct investment and UK-based firms and agencies. The Government's decision to campaign for the relocation of the European Medicines Agency and the European Banking Authority is welcomed by the chamber and is something that we have been active in supporting. We are also working with national and local government to ensure fastest delivery of key resources such as housing, offices, international schools and regulator capacity.

There are very real opportunities for Ireland in the likes of the education and research sector. By leaving the EU, the UK will cut itself off from £1 billion per year in EU funding of its universities and research institutions. If we adopt a genuinely strategic planning approach together, Ireland can position itself as a potential base within the EU for those researchers who are facing loss of their lead role on key research programmes or indeed outright exclusion from pan-European research consortia. In order to achieve this we must ensure we reverse the current trend that sees our universities slipping down the global rankings through implementation of the Cassells report without delay. This really is not the time to play party politics with a vital national resource and I urge all sides to grab this opportunity so we can emerge strengthened by opportunity rather than diminished by loss.

To get the best from Brexit, Ireland must look to our visionaries of the past, such as T.K. Whitaker, for inspiration. Just 50 years ago, Ireland faced huge decisions from a much weaker base. Not long independent, impoverished by a trade war with our neighbour and exporting our young alongside our animals, we had missed out on the industrial revolution and we had no natural resources other than our food, our brains and our work rate. The choices made by our predecessors then shaped what we are now as a vibrant, resilient people, an economy and a community that has paid its dues and which now features the best growth rate in the EU.

We should think carefully now about what we would want our successors to say in 50 years about the choices we get to make now. Brexit is a catalyst for a national strategic plan

to guide our success and collective well-being for some generations to come. We should work together now and look forward with ambition, optimism and faith in our collective abilities. We should not only address the challenges and opportunities of the immediate aftermath of the UK people's decision to leave the EU but we should also ask why and what has changed to make a strong nation so decide. Armed with that understanding, we can and must work together in our common interest knowing that we may be the first generation to be able to deliver comprehensive local and even universal well-being or the last to be given the chance.

**Mr. Ian Talbot:** Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to understand the concerns of businesses from all areas in the country and represent their views. We also work very closely with our chambers in other jurisdictions. The Northern Irish chamber is a member of Chambers Ireland and we are working very closely with it as we see that work as valuable. We are also working extremely closely with European Chambers of Commerce to profile the case for Ireland within this Article 50 and subsequent negotiations. I also welcome the opportunity to be able to bring Mr. Paddy Malone, the public relations officer of the Dundalk chamber, to the meeting as he can give us a real sense of what is happening on the ground in Border areas that will be most impacted immediately and in future. With that in mind, I will pull some extracts from my supplied submission to ensure Mr. Malone gets some time to speak.

Following the UK's vote in June to exit the European Union, there continues to be a large degree of uncertainty as to what will happen next. We have already seen significant market and currency volatility and we have a great concern about the lack of understanding about whether the departure will also entail leaving the Single Market and the customs union as well as the consequent impact. It is also very clear that the interruption and likely reduction in trade between Ireland and the UK will have a disproportionate impact on our indigenous firms, especially our exporting SMEs, which are very reliant on the UK as a primary market. There are also supply chain issues for Irish companies that may not even realise they have an exposure in this area.

We have been very vocal over the past few years about the need of the Irish economy to retain competitiveness to grow and that remains more important than ever. Due to the existence of a land Border between the Republic of Ireland and the UK, the Irish position is unique. Mr. Malone will address issues such as the number of people transferring across the Border day in, day out just to do their jobs.

From our network of chambers there is a sense that Brexit will provide some opportunities for Ireland. If we can enhance Ireland's competitiveness relative to the UK and other EU member states, we may well see the opportunity for foreign direct investment companies choosing to locate operations here as well as expand indigenous companies. While we cannot control the negotiations or the effects of Brexit, we can ensure Ireland is an attractive location for investment and continues to be an excellent environment in which to do business. In that regard, we need to focus on competitiveness and infrastructure, to invest in our transport network, education and training systems, as well as on the cost competitiveness of our enterprises, particularly costs which can be impacted by the Government, child care costs and housing.

We do not believe it was ever possible to Brexit-proof a budget as we do not know what Brexit will involve. We would like to see, however, a focus on credit export, how we can free up new credit opportunities and different products used in different parts of the world, including export credit guarantee schemes, to help companies export into new markets. We also call on the Government and elected representatives to support the European Commission's trade



strategy. Trade agreements with the US and Canada will be necessary.

We accept the UK exit from the EU is only one part of a much broader set of challenges to the EU economy such as migration, youth unemployment and climate change. We must make great efforts to communicate the uniqueness of our situation going forward. The Government cannot solve this in isolation. The private sector stands ready to add its support. We have to control the controllables.

**Mr. Paddy Malone:** I thank the committee for the opportunity to present to it. Dundalk is more exposed than any other town to Brexit. To emphasise how important this issue is to Dundalk, Thursday is the tax deadline and, as I am a chartered accountant, I had to work until 4 o'clock this morning to be here today. Last year, I addressed an Oireachtas committee on the all-Ireland economy. Its report came out in January and much of the work done in it is of relevance to this committee's deliberations.

The issues I wish to raise are local, as distinct from the national issues which have already been raised. Every day, 3,000 commuters travel back and forward across the Border in our region. Across the entire Border, 30,000 people commute. They are attracted to PayPal, eBay and others on the southern side and to First Derivatives, Glen Dimplex and others on the northern side. What time does one leave work to pick up the kids from a crèche if one is going to encounter a PSNI, Garda or customs checkpoint? This will disrupt the whole region and the way it works. We are trying to integrate the region between Newry and Mourne District Council and Louth County Council. The first memorandum of understanding between two local authorities from two jurisdictions was signed between these two councils. This is a development of which we are proud but now it will be demolished.

Small and medium-sized enterprises, SMEs, will face significant delays, and subsequently extra transportation costs if they have to cross the Border. This will also bring challenges to the supply chains which already exist. Instead of looking to the North or the South, we are going to lose trade automatically with that situation.

We are worried about the PEACE IV dividend. The British Government has said it will stop sanctioning PEACE IV projects beyond 2019. We are seriously concerned that the peace process has not been embedded sufficiently to allow it to stop prematurely like that.

We are already aware of one research project in Dundalk working in conjunction with a Portuguese research institute and Queen's University Belfast. The Portuguese institute has indicated that if Queen's University Belfast is going out of the EU, it will have to find a new partner. While that might offer opportunities for other Irish universities, it similarly offers threats as well. If we want to do research properly and develop the next generation of products, this has to be seriously tackled.

The retail sector will be decimated if sterling drops to between 90p and 93p to the euro. We faced this problem since 1979, when the link with sterling and the punt was broken. We faced it again in 2008 and 2009. This one is different in that it could well last for a longer time. We suggest central government introduces some form of rates remission scheme and direct subsidy into the Louth area. At the moment, Louth has already the poorest collection of rates and Dundalk is the poorest within that. Over 40% of rates have not been collected for years.

The SME support which Mr. Arnold Dillon spoke of is critical. However, it should not be directed at export-oriented companies. Companies in Dundalk effectively face import substi-

tution by trying to tackle companies coming from Newry. In the same way Enterprise Ireland and others are geared towards encouraging exports, an import substitution company serves the same purpose. We would strongly recommend that the Government does not just look simply at export-oriented companies but considers small indigenous companies, which are the lifeblood of any town.

Dundalk is ranked number nine of the nine gateway towns in the Republic, based on a 2013 Department of the Environment, Community and Local Government report. That cemented the findings of a report commissioned by Dundalk Chamber of Commerce and Louth County Council which showed Dundalk was the poorest of the nine gateways in 2011. In that report, Newry was ranked the second poorest town in the North. Only Strabane, which is the poorest in the UK, managed to beat it. The area has been decimated by the serious underdevelopment of economic activity since 1920. The one area which offers a chance for both areas, North and South, is its tourist potential, especially at Carlingford Lough. However, it has been grossly underutilised. Belfast thinks of Derry as a region. Dublin thinks of Galway and Cork. No one thinks of Louth or the North. Up to 60% of the population is within an hour's drive of Carlingford Lough but its tourism potential is not well utilised. If we are going to tackle Brexit, we need to think of Northern Ireland, the Border counties and how they are going to suffer. That long-term dislocation is going to be significantly severe for the region.

**Senator James Reilly:** I thank the delegations for giving their time presenting to the committee. They can see this committee is consumed by Brexit and what it means. Given that Britain does not even know what it wants, the committee fully understands, as Mr. Ian Talbot said, budgets and so forth cannot be Brexit-proofed. However, we have to stay ahead of the posse at all times. It is going to be a dynamically changing situation.

What opportunities do the delegations see arising from Brexit? On Mr. Paddy Malone's point about rates collection, why have they not being collected in Dundalk for so long? There were good years there too, as well as bad.

**Mr. Arnold Dillon:** In my address, I did focus overwhelmingly on the negatives. IBEC is also looking at the potential upside of this and exploring some of the opportunities which may well exist.

An obvious one, which has received quite a significant bit of attention, is the potential in the financial services area because of the question mark which hangs over the ability of UK-based financial services companies to operate in a post-Brexit scenario due to issues around passporting. It was encouraging to hear IDA Ireland state its offices around the globe are incredibly busy with queries in that regard.

IBEC's financial sector side is actively involved in working with companies based in Dublin and throughout the country, as well as dealing with queries from UK-based companies with no operations in Ireland which are exploring the sort of options which may present to them if real risks crystallise in the UK around financial services. On a broader level, there is an offering that Ireland has post-Brexit in that it is an English-speaking, common law country with established links with, for example, the US and foreign direct investment. There are new opportunities and IBEC is working with the various agencies to promote those in so far as is possible.

**Chairman:** Would anybody like to take up that point?

**Mr. Paddy Malone:** SIRO last year announced that Dundalk would be the one big town of



the ten it would service. SIRO is a joint venture between Vodafone and the ESB and is already operating. It gives us 1 GB of speed, which is four times faster than the speed available in the Irish Financial Services Centre, IFSC. We are 40 minutes drive from Dublin Airport, almost the same as the IFSC, taking traffic into account. We are positioned quite strongly in that area. First Derivatives in Newry has proved that it is possible to grow from that area. The infrastructure is in place and what is needed is for IDA Ireland to go out and sell it.

On the question of rates, Dundalk suffered because, when the various property schemes were floating around in the 1990s and 2000s, it did not get any significant investment. There was no foreign direct investment in Dundalk in the 1970s and 1980s. That is the cold reality. We lost our four indigenous industries in the 1960s: brewing, tobacco, shoes and heavy engineering. Dundalk has been in a poor situation since the 1970s.

**Deputy Tom Neville:** When I was on the council in Limerick, there was a problem with the collection of rates in 2014 and 2015 and we put together a rate grant scheme. I do not know if that is run in Dundalk. We found that the collection rate, particularly in vacant properties, has been increasing by 3% or 4%. The figures are relatively small but it is a move in the right direction.

**Mr. Paddy Malone:** We have made some efforts in that regard this year. There have been several initiatives. We will see what happens.

**Chairman:** Mr. McGrane mentioned the Cassells report and third level funding. We all know that our universities and third level colleges are underfunded and need a huge investment. I think I heard it mentioned that there is the equivalent of £1 billion from the EU going into third level institutions in England. How could we access some of that funding here? It would be a huge addition.

**Mr. John McGrane:** It is an extremely important and potentially very lucrative stream of funding. The circumstances are that the syndicates that represent those research transactions already established under Horizon 2020 in the UK and other projects are consortia partnering doctoral researchers in particular universities. The UK wins over £1 billion worth a year of EU funding from that source and more industry-related co-funding for such projects. It is not just that universities get the money - as we know from universities in Dublin and the regions - but that campuses for innovation spring up around the fact that serious research is being done on a given life science or technical project on a particular campus. There is a complete ecosystem, namely, a cluster of enterprise and innovation fostered by the fact that there is a core research faculty on the campus. In the UK's case, this is funded by EU money. That money is up for grabs for projects that have already been approved but in respect of which funds have not yet been drawn down. Some of the participants are looking for other partners because they are unsure of the continuity of the UK's membership. Some of the research professors are feeling personally unwelcome in the UK.

It is very important that Ireland pitches up in full weight because the other 26 EU countries are equally interested in winning some of that funding for their researchers and universities. First, we must have a plan, second, the participants in the plan have to work well together. There is a challenge for our existing third level sector not only to be well funded but to work well together. I say that without any disrespect to the participants. They live in a relatively defensive environment because of the thinness of their funding, so they naturally tend to protect their patches. We need to open up the structures whereby we can put a national syndicated plan together to bid for that funding sooner rather than later. Very good work has been done

by people such as Dr. Mark Ferguson of Science Foundation Ireland. He and others in like-minded organisations, including people at this committee, along with universities and industry partners need to mobilise quickly to put in a consortium bid to ally with those universities in the UK - including Northern Irish universities - which are threatened by this eventuality. We need to move quickly.

**Chairman:** Is some of that money going to Northern Ireland?

**Mr. John McGrane:** Queen's University Belfast is a significant beneficiary and an excellent participant at academic level in those projects, with excellent professors. We need to extend a hand to partner those universities in order to rescue that funding.

**Senator Paul Gavan:** I thank the witnesses for their presentations. Mr. Dillon said that to put in place a quality public transport network, housing and public services need to compete in a post-Brexit world. I welcome his call for a ramping up of public investment. How does he propose that we pay for it, given that IBEC has championed cutting taxes as opposed to ensuring that we have a revenue base strong enough to make the investments he quite rightly calls for?

Mr. Dillon also mentioned agrifood, a sector we know is particularly at risk. Precarious work is another big problem in those sectors as I know from my previous role as a trade union official. Unfortunately, low-hour and zero-hour contracts are rife in the agrifood sector. How does Mr. Dillon propose to tackle that issue? I have serious concerns about the downside of that for our economy.

Mr. McGrane called for implementation of the Cassells report. He did not say which option he prefers. Does he have a preference for how third-level education should be funded? We know from international practice that the loan option excludes people from working-class or low socioeconomic backgrounds. I hope he will reassure me he is not calling for that option.

**Mr. Gerard Brady:** On public transport funding, interest rates are less than 0.5%. One can get 100-year money for 2% interest. It makes sense to debt-finance much of that. The Government is still running a deficit but, according to the budget documents, it will have a surplus of approximately €2 billion on current spending. It remains to be seen whether that will come through in light of the weakness in tax receipts. Approximately half of the infrastructure funding we included would be paid for by money we save. More could be funded out of debt. There are issues with fiscal rules, a matter to which we have drawn attention at different forums. It should be debt-funded. It makes no sense to increase taxes to pay for it when it is possible to borrow at 0.5% for ten years.

I do not know what figures Senator Gavan is pulling from agri-manufacturing in respect of zero-hour contracts. There are problems in the primary agriculture sector, where there is a lot of tenuous and low-paid work, particularly in the case of self-employed people. Irish agri-manufacturing tends to have some of the best pay in Europe. We recently wrote about this in *Food and Drink Industry Ireland*. The average wage in Irish agri-manufacturing is €40,000 per annum, which is well above the average industrial wage. There are definitely areas where there is probably more part-time work.

Our point about Brexit is to avoid putting extra costs on some sectors that already have high costs. Wages are being increased and that affects approximately 64% of our members. Imposing extra regulations on companies which are already in a precarious position in retaining jobs makes very little sense. I would not accept that it is widespread or rampant, which is the word

the Senator used.

**Senator Paul Gavan:** I would love to see that research because I have worked extensively with beef processors and know what they are paid. They are paid at or just above the minimum wage. Of course, we can play tricks with average incomes, but I must question it. My experience is that employees in the sector are, almost exclusively, on zero or low-hour contracts and are paid either at or just above the minimum wage.

**Mr. Gerard Brady:** Employees in the beef sector are probably paid lower than the average in the-----

**Senator Paul Gavan:** I am glad that Mr. Brady has acknowledged it.

**Mr. Ian Talbot:** To comment on several points, the chamber network has consistently called for a broadening of the tax base. We supported the introduction of the property tax in some form. We have also called for the proper introduction of water charges in order that we pay across the board for the infrastructure we actually use. On the fiscal rules, there is an opportunity to borrow at historically low interest rates to fund some infrastructure, but clearly this must form part of the negotiations, for example, with the European Union on how we can get through this.

I did not come prepared to answer questions on the issue of precarious work, but Mr. Dan O'Brien had a piece on it in recent days which I am sure committee members have seen. It called into question-----

**Senator Paul Gavan:** Mr. O'Brien would have a particular perspective on these matters.

**Mr. Ian Talbot:** He would; I was just making sure the Senator had seen the piece.

**Chairman:** We will not get into commentary. Mr. O'Brien was before the committee a fortnight ago. I asked Mr. McGrane to speak about the Cassells report.

**Mr. John McGrane:** To take the second question the Senator raised, whether we had a position on how it should be funded, the short answer is we do not. Our view is that it is important to have the conversation sooner rather than later. It is challenging, as any such matter is. We know about the importance of funding the third level sector, but it is not just about funding, it is also about structuring and many other issues. This is a very challenging discussion for educators, politicians, business leaders and civic society and the easiest and natural reaction would be to push it down the road somewhat. Our encouragement is not to waste the fact that Brexit stimulates us to ask what we need to do. We should accelerate the discussion and all play our part in making the tough call and asking how we will do it, have it agreed and move on with the opportunity.

**Senator Aidan Davitt:** What percentage of product sold by manufacturers do the delegates believe is priced in euro? Today I spoke to a manufacturer involved in the production of car parts. The price of his raw product has decreased because he is importing much of what he needs. His business is priced in euro and he sells into Britain in euro.

My next point is one I threw out at our last meeting, but it did not attract much of a response from the committee. It has to do with having a specific Minister to deal with Brexit and was run a lot in some of the newspapers after the meeting. On another thought I have had, the delegates deal with both sides of the business. Many businesses which import are seeing the upside of

the sterling crisis. Would it be possible to match some of these businesses, through a business incentive scheme, with sustainable businesses which are under serious pressure because of the fluctuations in sterling? “Tax break” is a dirty phrase, but perhaps pairing or some other type of mechanism might be used to enable certain businesses to be matched, perhaps a stronger business with a weaker business which is struggling because of fluctuations in the sterling but which is not likely to go out of business. They could be paired in some way to try to ride out the fluctuations. Perhaps they might look at a joint return on a short-term basis. Some of the businesses represented by all of the organisations before us are getting on well because of Brexit, while many others are suffering and on their knees. Perhaps some type of incentive scheme might be rolled out by the Government to help weaker companies. We have had similar measures in business incentive schemes and it would not break the mould to come up with such a scheme. It is something that might be of help.

**Mr. John McGrane:** There are no hard data for the proportion of Irish exports paid for by UK customers in euro, but I suspect it is in the relative minority because the greater number of Irish businesses are smaller businesses, alongside a smaller number of very large ones, and smaller businesses do not have the bargaining power to command not only that they sell the product or service but also to choose the currency in which they will be remunerated. The reality is that smaller businesses are very exposed on the currency, which is an immediate concern. I will roll this into the second part of the Senator’s illustration. One would like to think there is an opportunity to have some economy of scale or engage in joint problem-solving by partnering about which the Senator spoke, but I am afraid the greater likelihood in the business reality is that the weaker company will either go bust or be taken over by the stronger company. It might not be quite as benign as the Senator might wish.

**Senator Aidan Davitt:** They would not have to be in the same line of business.

**Mr. John McGrane:** Yes.

**Senator Aidan Davitt:** There could be some incentive. We have rolled out various schemes. For argument’s sake, it could involve somebody who is importing pigs ears dealing with somebody who is producing mushrooms. Both are involved in agriculture. They do not have to be in the same line of business.

**Mr. John McGrane:** That is a fair question. Good work is being done by Enterprise Ireland and other organisations in the support space, not least chambers of commerce, in connecting businesses with relevant fellow businesses, indigenously and in the opposite market. As I alluded to in my remarks, there is a counter-intuitive solution. For businesses exposed to the slump in sterling and exporting to the United Kingdom, Enterprise Ireland suggests developing other markets, but for the reasons I outlined, this is much slower than we would like. The counter-intuitive solution is to do more business in the United Kingdom. With organisations such as the chambers of commerce, we are instruments in introducing some firms to additional partner businesses on the UK side which can help them. A very simple example is a call centre. In this country we are very good at running call centres with which we service many major UK businesses. They work on a margin of 15%. The currency has slumped by 17% since 23 June which means that they are now out of the money and losing money. What will happen is that these businesses will either move to the United Kingdom which might mean moving to Newry from Dundalk in relative terms or they might be taken over by a larger business with deeper pockets in the same line of business.

**Mr. Paddy Malone:** On networking, the chambers of commerce provide mutual support

and advice, but, as Mr. McGrane said, at the end of the day, it is dog eat dog. Sometimes we find our friend will devour us; therefore, we must be careful. The chambers of commerce have been doing several things. We are putting on the website everything Enterprise Ireland and IDA Ireland come up with. We have been trying to make available as much information as possible. InterTradeIreland, an organisation based in Newry, has been predominant in this regard. It is holding a national conference the week after next in Dundalk to try to get information out to various businesses and advise them. We encourage people to network, but, at the end of the day, the currencies are outside our control and we must live with them.

**Senator Aidan Davitt:** I do not want to sound simplistic. I run a business with ten employees and we have just finished our set of accounts. I am also involved in two other companies and have a reasonable grasp of what is going on. There should be some mechanism whereby one company could get credit from another. The companies involved do not have to be in the same line of business. We have networks and the delegates know the people who are importing and exporting. To try to keep some of these viable businesses afloat, the Government could put something in place. I know that it would take some work, but perhaps companies might pair in order that one would give credit to another to keep it open. That is the general point I am making.

**Mr. Ian Talbot:** Our mentoring programme has not been mentioned. I see the compelling logic of Senator Davitt's idea but there are many company law issues and issues for individual directors. If one was in that situation one would be very worried about the consequences of reckless trading, tax liabilities and the due diligence one would need to undertake to prove just how good or bad was a company at which one was looking. There would be many dangers that would make it very difficult for business owners to sign up for something like that. There would be a lot to work on.

**Deputy Niall Collins:** I apologise to the witnesses for being late. Can the witnesses list between three to five actions that are not happening but that they would like to see the Government prioritise?

**Mr. Arnold Dillon:** I will speak briefly on particular proposals and will be happy to forward more specific details to the committee. First, there is a need for an enterprise stabilisation fund that would allow companies that are going through a very rocky period because of the currency shock to access funds. This was done before during a previous crisis and was managed by Enterprise Ireland. I think there are grounds for that to be replicated given the current context. Additional funding is required for market diversification. This would allow companies to explore new markets and new opportunities in the context of potential new trade barriers being erected into the UK and to alleviate the existing currency barrier because of the fall in sterling. We need to look again at access to finance and ensure the strategic investment fund is in a position to provide sustainable funding to Irish companies.

In regard to trade finance measure and online trading supports, we already have some supports that help support small companies to expand their business online. We need to raise the threshold so that larger businesses can access similar supports.

**Chairman:** I call Mr. McGrane.

**Mr. John McGrane:** In response to Deputy Collin's question on specific things that can be done, let me list in no particular order some of the things that can be done. Some of them are in train so we would encourage that we work together to complete them quickly. I have alluded to



the national strategic plan, we can approach the problem piece by piece or can come up a plan. We have some time to organise a national strategic plan to deal with this issue. A critical element of the plan is how to execute it, so that it does not just sit there. We have to have it fully thought through and must come up with the interface between the private sector, the State and civic society to get the plan executed line by line. Second, and this can be done right away, is to get an unambiguous message out internationally that Ireland is open for business. Many people are spinning against Ireland, against Dublin and against the regions by saying that we could not take the new business as we do not have the offices, the houses, the schools and the regulatory capacity or the second runway for that matter. We need to get out there and tell the world that we are wide open for business and the capacity that is needed for incremental business will be on-stream by the time that level of business can come here. We need to bid for other agencies in addition to what we have done already such as the European Medicines Agency and the European Banking Authority. There are many more such agencies in the United Kingdom. We should not be shy, as other European capitals are bidding for these agencies and we should bid too. We need to deliver the actual resources, such as housing. The good work has started but we need to get on with it at an even faster rate. We need to progress big infrastructure projects such as water for Dublin or a balanced water regime for Ireland as a whole that recognises that the whole country both has and needs water and to ensure that we are not thinking in the short term but in the long term as well for the future industrial policy and employment needs of the country.

**Mr. Ian Talbot:** We could replicate a lot of Mr. McGrane's list, but let me add that the national planning framework is critical and we need buy-in from all elements of society to deliver it. We need a focus of the national planning framework so that we can start to invest in the right infrastructure in the right places rather than invest randomly in infrastructure. We need to find more ways to increase the amount we are spending on infrastructure. We need to look at our planning laws to see how we can deliver critical infrastructure projects. We believe we need to put the right infrastructure in place to facilitate growth for the future.

**Chairman:** I call Senator Ó Céidigh.

**Senator Pádraig Ó Céidigh:** First, well done to the Chairman and members of the Joint Committee on Jobs, Enterprise and Innovation. I am not a member of this committee but I sit in whenever I get an opportunity to attend the meetings. The committee is inviting groups to discuss the potential economic impact of Brexit, which is really important. I chair the only entrepreneurial organisation for the Thirty-two Counties of the North and South of Ireland. We have 172,000 people employed and they are all in well paid work. Frankly, we often resent broad-brush statements made from time to time on zero hours contracts and so on. That may happen in some cases but it does not happen in the vast majority of cases.

I am concerned about joined-up thinking. I see the Chairman and members are pulling things together, which is really important but I am still very concerned about joined up thinking. I believe many SMEs are looking at moving; in fact I chaired a board meeting this morning and a number of companies are looking at moving their base from Ireland to the UK. For example, a company from Wexford with between 280 to 300 staff is moving its head office to the UK. It is more effective for them to work from the United Kingdom than from Ireland because of the regulation, challenges and difficulties and the extra support that companies get in the UK and Northern Ireland. I believe this is an issue that need to be seriously addressed because we will lose our indigenous companies.

I would like to hear the views of the witnesses from IBEC and the chambers of commerce

on tourism. A significant issue in regard to tourism is that 42% of all the tourism income comes from the UK. When one considers that the UK may be going into a semi-recession and that foreign exchange is going in the wrong direction for us, that will have a significant impact. In my view this is particularly true for its impact on tourism businesses, such as bed and breakfasts, pubs, bars and so on in rural areas. They are not able to avail of funding and support from Enterprise Ireland. In that regard, what would the chambers of commerce and IBEC think of getting the SMEs which are members of their organisations to do a self-audit? Have they a tool for a self-audit? I accept that mentoring and so on is great on a one-to-one basis. I believe if small businesses did a self-audit and reflected on it, one would see the trends in different regions, similar to Dundalk and the Border counties. I am delighted that Mr. Paddy Malone is present. It is fabulous that Mr. Malone is here, because he raised a particular case in point that needs to be looked at. Quite frankly there are slightly different issues in different parts of Ireland. I believe that IBEC, the Small Firms Association, ISME and the chambers of commerce are in an ideal position to carry out an audit and give the results to this committee, so that it can help us in the joined up thinking and making things happen.

**Chairman:** Would Mr. Gerard Brady like to comment?

**Mr. Gerard Brady:** I will respond to the first two questions and Mr. Arnold Dillon will speak on the internal organisational work we are doing.

On the question of companies moving from Ireland to the United Kingdom, that is an issue that we have brought up again and again. We tend to think of inward investment but we will see many growing companies, in particular mid-cap companies in the food sector that are thinking about their next steps, that will move by acquisition, partnership or expansion into the UK. That is feedback we have been hearing loud and clear. What can one do about that? One issue is the size of the UK market, and there is nothing we can do about that apart from trying to get the best deal for the UK we can in the negotiations. Tax is a major issue, in particular around capital gains tax, and the subjects of taxation of the self-employed and taxation share options have come up.

In regard to tourism, we are doing work that we will probably publish sometime before Christmas on the impacts on rural areas. The impacts are very different depending on what region one is in. The impact on the Border region will be very different from the south east, but they will both be severely impacted. The retention of the 9% VAT rate will be a help but there will be pain, particularly in areas that were not traditional tourist areas but where there has been a great deal of recent promotion to attract tourists. The promotion of the west has been successful but it will suffer because British tourists go into tourism areas that other tourists do not visit. I think about 20% of the tourists visiting the midlands are UK-based but in Dublin, only 3% to 4% of tourist are from the UK.

We will meet all our regional committees in the next couple of weeks. We had the committees tell their experience to Deputies in the past couple of months. At a business planning level, many companies have not got very far yet. The more resources they have, the better prepared they are. Hedging is probably the best example of it. We conducted a survey of approximately 450 companies two weeks after the result. Only 25% of exporters had cover, that is, hedging, pricing contracts, forward guidance on pricing, etc. Most of that would only last three to 12 months from the time we surveyed them. The first and second quarters of next year will see a great deal of pain. People are protected where they have pricing contracts, but they tend to be the ones who export a lot. They will have to start planning on how to deal with UK retailers in particular seeking price changes from them that will deeply affect them. An increase in

redundancies in the first and second quarters of next year is our expectation. Mr. Dillon might discuss the internal aspect.

**Mr. Arnold Dillon:** As part of IBEC, we are trying to support companies by providing as much information as possible on what is happening. That is difficult, given the degree of uncertainty that exists. We are working with various agencies, for example, Enterprise Ireland and Bord Bia, but we are also embarking on an exercise that will seek to break down many of the Brexit issues, including sectoral specific ones, and a project that will seek to identify and support companies in examining their own businesses, identifying the risks and potential opportunities and consider how they might mitigate the risks. Various sectors are at different levels of preparedness and various organisations have different levels of resources that they can invest in this regard. As an organisation, we are trying to embark on projects to support them in that work. We will be happy to feed that work back to this committee and the Dáil in due course.

**Mr. Ian Talbot:** I will address one aspect and Mr. Malone will address the other. Most chambers are involved in tourism initiatives locally. We have been trying to provide guidance and leadership on chambers working together in larger clusters. For example, most chambers on the west coast have joined the Atlantic economic corridor chamber group. Recently, it published a position paper on the development of infrastructure and tourism initiatives on the west coast. That is the sort of work that we are trying to do. Mr. Malone has mentioned already, and will continue to mention incessantly, the Carlingford area in Dundalk and how we have to treat it as a single region rather than two sides of the Border. We are involved in trying to bring tourism initiatives and in opening up what Ireland has to markets other than Britain. The chambers of commerce are focused on trying to establish links with their respective diasporas in other jurisdictions. For example, the Mayo and Tipperary chambers are focused on trying to find their diasporas.

**Mr. Paddy Malone:** I will discuss two points, the first of which is on the SME sector. If subsidies or supports to export-oriented companies are being considered, companies involved in import substitution should also be considered. A company in Dundalk that is stopping a business from Newry entering the area is equally as valuable as a company in Waterford that exports to France. I have not seen this sort of thinking often when dealing with local enterprise offices, LEOs, or anything else. I know of a company that is involved in import substitution, but it cannot get a grant. It has been told unofficially by Enterprise Ireland to tell Enterprise Ireland that it can export. The owner will not do that. The company might be in a position to do so in five years' time, but it cannot do so now. Any targeted approach to support SMEs cannot be targeted towards export-oriented companies only, particularly along the Border.

The self-audit idea is an excellent one. I will revert on it. Mr. Talbot and I agree that we will consider it. We will pick up on the idea specifically.

**Mr. John McGrane:** It is understandable that we view the matter in terms of losing our indigenous companies, but we can save the Irish part of the business if we help part of it to be stronger in the UK. If it does not take a strategic action like opening up some of its business, it may lose the rest of the business.

I will touch on Senator Reilly's question. There is an opportunity, as many UK companies need to get a base inside the EU. Some of our businesses have to save themselves by putting some of their operations inside the UK and, in compensation, there is tremendous opportunity for Ireland to be the next best EU alternative for UK-based businesses.

To add to the points made by others on tourism, Tourism Ireland is an all-island body. We need to consider some of those structures born of the peace process and how they stand in a Brexited context. In the meantime, they do excellent work. There are one island, two countries and three tourism agencies. Ireland's Wild Atlantic Way has worked well and runs all the way up the west coast. Ireland's Ancient East seems to expect that, while the vikings did not stop at the Border, the tourists would. We might consider what we are trying to do in that regard.

On a serious note, there are still plenty of English tourists coming to Ireland. Center Parcs is opening a 1,000-job resort park in County Longford that no Irish business was going to open. It is still intent on building that business to bring English tourists to Ireland over the long term. We have plenty to offer. We just need to work smarter and sell not on price, but on this island's unique experience.

**Chairman:** I thank the witnesses for attending and engaging with the committee. Everyone will agree that it has been a useful and informative session. I propose that we suspend the meeting for a few moments to allow our next guests to take their seats.

*Sitting suspended at 6.55 p.m. and resumed at 7 p.m.*

**Chairman:** We are joined for the second session of today's meeting by Mr. Neil McDonnell, chief executive of the Irish Small and Medium Enterprises Association, and Mr. James Coghlan of the association's national council. We are also joined by Mr. Simon McKeever, chief executive of the Irish Exporters Association, and by Ms Patricia Callan, director of the Small Firms Association, and Ms Linda Barry, the association's assistant director. The witnesses are here to discuss the likely economic impact of Brexit, with particular emphasis on jobs and enterprise and the steps being taken to mitigate these risks.

Before we commence, I am required to point out 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 this committee. 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 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. 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 by name or in such a way as to make him or her identifiable.

I ask everyone present to switch off their mobile phones or switch them to airplane mode because the use of such devices can interfere with the recordings here. I remind our guests that their presentations should be no more than five minutes in duration. Members have been given copies of the presentations submitted by today's attendees. I ask Mr. Neil McDonnell to make his presentation to the committee.

**Mr. Neil McDonnell:** We thank the joint committee for inviting us to address it on the subject of Brexit. As our submission is on the record, we do not intend to read through it. The key risks we have identified from Brexit are currency fluctuation, access to credit and domestic competitiveness. Allied to that, the potential departure of the UK from social chapter legislation would have a further effect on domestic and international competitiveness. In that context, I remind the committee that at the current exchange rate, the UK minimum wage of

£7.20 equates to €8.08. It is obvious that each-way market access across the Border and into Great Britain is very important. Our interests in negotiating the British tariff arrangements are not necessarily the same as the interests of our large trading partners on the Continent, such as France and Germany, because our export mix is not the same as the export mix of other EU member states.

The extent to which a soft or hard Border and Border controls will be imposed will have an impact on access to the UK. We ask the committee to bear in mind that it will also have an impact on transit from Donegal through Northern Ireland to Irish ports and on land-bridging through Great Britain. It is clear that we do not want large-scale customs and tariffs to be imposed. We are also concerned about the impact of Brexit on the action plan for jobs that was published previously. In the longer term, we believe the Government must reconsider and reconfigure this country's policy in the area of foreign direct investment, bearing in mind Ireland's future position as the last remaining English-speaking country in the EU. We are encouraging an "Ireland first" determination to exploit the opportunities arising from Brexit that are best suited to our economy and our workforce.

We are asking the committee, especially on behalf of small businesses, to bear in mind when it asks us questions about the impact of Brexit on small businesses that a certain amount of this is unknown. Many of our member companies and small businesses are transacting business with larger businesses. The committee will hear from representatives of larger businesses later in this meeting. We do not yet know what the extent of their exposure will be in areas like forestry, tourism and business and agriculture supplies. We participated in the all-Ireland dialogue last week. We believe that forum was successful in identifying most of the streams of work that are necessary to plot a detailed Brexit strategy for Ireland.

We ask this committee to encourage the Government to take a more streamlined approach to the planning and management of the Brexit issue. This should be based along departmental lines and should start with the Departments that are most affected. I refer to the Department of Jobs, Enterprise and Innovation, which this committee marks, and also to the Departments of Foreign Affairs and Trade, Agriculture, Food and the Marine and Transport, Tourism and Sport. If this does not happen, trade associations like ISME and the businesses we represent will simply end up regurgitating the same information in duplicate to many Departments and committees. We would like the Government to spare us that fate.

**Chairman:** I thank Mr. McDonnell. I ask Mr. Simon McKeever to address the committee on behalf of the Irish Exporters Association.

**Mr. Simon McKeever:** I thank the Chairman and the members of the joint committee for inviting us to talk here today. I would like to refer briefly to four issues. First, I will share some of the statistics we have. We have done a number of surveys. We did one before the vote and we closed another one a couple of weeks after the vote. We are about to go out with another one in a week or so. Second, I will speak about the anecdotal evidence we are picking up. The comments of the previous speakers have confirmed much of what we are hearing anecdotally. Third, I will set out what we are recommending. Fourth, I will discuss an initiative for action we are pursuing. I think it might address certain issues.

I would like to focus on some of the headline statistics in our presentation. Some 92% of our members are saying that Brexit will have a harmful effect on Irish exporters. Some 89% of our members are doing business with the UK. Some 82% of those who are exporting to the UK are doing business in England. I remind the committee that these results go back a couple of



months. When we asked our members whether they were planning to decrease or increase their level of trade with the UK over the following six months, 31% of them said they were planning to increase it. Those results might be a little different when we undertake another survey in the coming weeks. We also found that the weakened value of sterling has had an impact on 65% of the businesses surveyed.

When we did this survey in March - I think that was the first time we did it - we found that 68% of our members were pretty much unhedged at that stage. That figure dropped to 49% within two weeks of the vote. When we spoke to many of the banks the morning after the vote, they told us that much of the coverage was out until the first quarter of next year. The committee needs to be aware that a lot of cover on sterling comes off in the first three months of 2017 and, as a result, we will probably head into a perfect storm at that time. Our members' single biggest concern is currency instability. They are also worried about the introduction of Border controls, the impact on economic growth, customs procedures, dual regulation and the reintroduction of tariffs. It is not just the tariffs that would affect the physical trade but it is also the time delay and the need for companies to employ people with the skills to fill out the paperwork. Someone mentioned to me that the return of borders would increase the cost of doing business by 14%. I should mention in that context that our organisation does not believe the British Government's view on immigration is reconcilable with the existence of a soft Border with Northern Ireland. We believe those two positions are irreconcilable at the moment.

When we asked our members whether they were planning to invest more in Ireland, 19% of them said they would increase their investment in Ireland and 11% of them said they would decrease such investment. On whether companies plan to increase or decrease employment, the split is even. On the level of pain experienced because of fluctuations in the currency exchange rate, it is the big issue for companies, but in the longer term the big issue will be competitiveness. The first point at which there is pain for a lot of companies is 85 pence sterling, with 90 pence being the next point. As we are now in that zone, the point of pain is a big issue. We have completed an exercise, a copy of which is included in the presentation, on the correlation of movements in the exchange rate with exports to the United Kingdom. They are correlated with each other. Exports to the United Kingdom dropped during the first eight months of the year.

We asked companies if they were planning to consider different markets as a result of the vote. In response 54% replied "Yes". The main markets they are considering are the USA, Germany and France. There is a lot of talk about and interest in the German and US markets. We need to be cognisant of the fact that it is a lot easier to do business in the United Kingdom than it is in any other country in the world. That is why so many of our exports are to the United Kingdom. Anecdotally, what we are hearing is that the immediate impact has been on the exchange rate, with which, as I said, companies are currently struggling.

Companies are also examining their sources of supply. If they find they can purchase raw material cheaper in the United Kingdom than here, they are switching their source of supply.

The next piece is sub-supply. I think this is going to have a huge effect in rural Ireland. We have visited companies around the country and know, for example, that there are a number of businesses with a couple of hundred jobs that are using widgets made by a company down the road that maybe has ten or 20 jobs. These businesses can now have the widgets made cheaper in the United Kingdom. This will impact considerably on local SMEs. It is not only those who are exporting but the entire supply chain that is being affected.

Earlier one of the IBEC representatives spoke about Irish companies examining whether

they might shift some of their production or services to the United Kingdom. That is an issue on which we have also been picking up since February. There is a more positive tax system in the United Kingdom where it is cheaper to find employees. The support the British Government provides in unemployment black spots and so on is generous.

Without going into our recommendations in detail, the immediate recommendation concerns what can be done in dealing with currency and cash flow lending issues. Reference was made to a fund that was available in 2008-09. If it is reintroduced, we will need to ensure funds will be available to all Irish businesses, not just companies supported by the Irish agencies. That is a big issue, as is cash flow lending. In our pre-budget submission we called for a national hedging plan. We have since been told that it would breach state aid rules, but it might be an easier way to try to help companies. We felt the NTMA could manage the risk and that the SBCI and the national banks could farm out the money.

The next piece is much more detailed and deals with cost competitiveness issues and others relevant to the National Competitiveness Council and whether we are living up to our potential in this regard. The longer term picture involves how competitive we will be with other countries. On Brexit, there is no magic bullet. It has been suggested we seek to export to markets in Japan, China and other places and although it will be more difficult to export to these markets than the United Kingdom, we need to start to build a long-term ability.

How we spend our resources overseas is another issue that needs to be examined. It is quite expensive to send public servants overseas in terms of housing provision and educating children. Working with local partners is another way to go. There are organisations in China which will give companies and governments greater access to local expertise. That needs to be done. We have in place a public-private initiative known as the national export hub, in which the Department of Foreign Affairs and Trade, InterTradeIreland and some local enterprise offices are involved. On the commercial side, companies such as ABP, AIB, DHL and PwC are involved. Two years ago, in conjunction with Enterprise Ireland, we travelled all around the country and engaged with approximately 800 people on the issue of export competence. We have since taught 20 companies how to export. The difference between what we are doing and what other State-run organisations are doing is that the training we provide is delivered by the commercial partners involved. Rather than have a consultant speak to companies about how they should go about borrowing money, AIB is engaging with them on what they need to do if they need to borrow money. DHL is teaching them about logistics. It is a live initiative which, as I said, includes some Government involvement and support from commercial partners. We could do a lot more with it if it was funded because we use the funding available to employ people to help companies. Through the national export hub and the Department of Foreign Affairs and Trade we are connecting companies with, say, ambassadors overseas. We are connecting companies through our network all over the world and helping them to grow. I wanted to ensure everybody was aware of this initiative. As I said, there is Government involvement, although to a limited extent, but it is an initiative on which we could build.

**Chairman:** I thank Mr. McKeever. I now invite Ms Callan to make her presentation on behalf of the Small Firms Association.

**Ms Patricia Callan:** It is welcome that the joint committee is placing a focus on this really important area. We have been engaging a great deal with Departments, particularly the Departments of Jobs, Enterprise and Innovation and Finance, to find practical, short-term solutions to the problems arising from Brexit. There are many people with good will who are acting to deal with them. What we need is a cohesive national strategy in order that we all know to whom we

should talk.

There are 238,000 businesses in Ireland, of which 98% are small in that they employ fewer than 50 people. In more than 21 counties they employ more than 50% of the workforce. It is important that in this analysis we also look at their needs. We need to realise that the agencies have for many years been working to try to increase exports, but the figure for total exports still amounts to only 6.4%. While there has been a massive effort made to diversify beyond the United Kingdom, this has not yet been achieved. We need to be realistic about where we were before Brexit in trying to get companies to internationalise. That is difficult and tough to do; therefore, we need to look at the issue in the context of the removal of Ireland from the United Kingdom.

Like many organisations, we also engaged in an analysis after the vote which indicated that the main issues of concern were exchange rate movements, which have since come to pass, the cost of exporting and pricing. Small companies do not tend to have sophisticated instruments such that when we asked our members about hedging, 85% stated they had no hedging mechanisms in place, while 87% stated they had no pricing agreements in place. Even though they are the suppliers, in terms of the relationship between them, it is very much the case that the companies to which they are selling are dictating the terms of sale and payment. That is an issue for consideration. Some companies did identify positives. While recent discussions have been very much focused on the negatives, we need a separate strategy for how we can use exchange rate movements in our favour, how we can win in-bound investment projects and the better pricing relationships we might be able to negotiate in certain sectors.

We are all here as business bodies which represent their members. There is huge disengagement and an air of unreality in the business community. People still do not have contingency plans in place. Most think this is not going to affect them. The message we need to get out is that it is not only exporters but also the sub-supply chain, the retail sector, the tourism industry and so on that will be affected. We need a plan for all of these sectors. The companies that do not know that they are going to be impacted on are probably the most vulnerable. At least, exporters are trying to put a plan in place. We need to take an holistic view. There are a number of priority and other actions that should be taken in the short, medium and longer term, bearing in mind the fact that in most businesses the margins are pretty tight, particularly in small firms. Sterling has devalued 18% since the date of the vote but 28% since last December. I do not know anyone in business who makes more than 30% and, therefore, everybody in this market is loss making at this point and it is a question of how long they can hang in there. I have included one e-mail from a member in the submission, which will give the committee a flavour of what his company is trying to do. It is a food company in the midlands which employs just under 50 people. It has had to let go €2.7 million in revenue. It cannot afford to service existing contracts because they are so loss making. It is not just about the raw agricultural products market; prepared consumer foods are low margin businesses. We have had huge success in this market but with most of those products, it is not a question of being able to go to France or Germany. Irish and British tastes are the same; we consume the same types of food. Those foods are not eaten on the Continent and, therefore, there is no market for them. If we want to have a food sector in two years, we have to act now. When Brexit happens, we will secure many competitive advantages but if we have not kept this sector going for the intervening two years, companies will not be around to compete with British imports in two years.

That means we need to push hard on state aid rules. Every time we talk to Government officials, we are told we cannot do that repeatedly. It is time to reframe this into what can we

do. We have to take this to the EU and make the case that this is an exceptional time and Brexit will have an exceptional impact on our country. The temporary state aid rules which they were well able to introduce in 2009 during the financial crisis should be invoked once more. We should be allowed to use those and develop schemes such as the enterprise stabilisation fund. State aid takes time. Even if we were to get a scheme through, it would take six to 12 months. In practical terms, we are realistic in the short term and we need to focus more on innovative financing measures because they are not subject to the same rules. Some companies will simply need cash to help them while financing instruments will help others but all the options need to be considered now. Whenever a decision is taken, there will be a long chain to get it through.

With regard to low cost financing measures, the budget provides for a scheme in the agriculture sector. That is attractive and I understand from the SBCI that it will have products in the market by January. We need to examine that as a model to see whether such low cost loans could be made available to small companies. We have had ongoing discussions with the Department of Finance for the best part of four years about export credit insurance. We have conducted surveys for officials and they have all this analysis. They are meant to bring forward an export finance product and we would like to see that. If we have done all this work, let us get those products go to market and have a sense of urgency.

It is important to realise that this is not just about exports. Our supermarkets are hard to deal with as a supplier. They will replace Irish products with cheap UK imports and, therefore, a national public awareness campaign needs to be run about the impact of that choice and about the fact that consumers choosing to buy those cheaper products will kill off the food sector at the same time. Much of the time, this is a public consciousness issue about raising awareness and that needs to be done in the lead-up to Christmas. Cross-Border shopping is a particular issue but this will be seen in every shop.

Similarly, we have had on ongoing discussion about why more companies are not trading online. It will be a €20 billion market in the next five years and most small companies do not have an online presence and do not have the capacity to take orders online. The online trading voucher scheme is a successful model but that is restricted to micro companies with fewer than ten employees. Most retailers have more employees than that. Measures we know will succeed in the short term need to be ramped up to give people a broader reach in terms of their marketplace.

The top issue for our members immediately after the decision for the short, medium and long term was the freedom of movement of people and that border aspect will be critical. Colleagues have referred to the renewed cost focus in terms of cost competitiveness and the tax competitiveness issue versus the UK. When the UK leaves the EU, it clearly will not have state aid or be subject to public procurement directives and it will be out there to compete with us. We need to be conscious of that as well as the opportunities open to us from being within the EU market.

**Deputy Niall Collins:** I thank the representatives for their presentations. What percentage of their memberships are in immediate danger of closing and seriously considering relocating outside the jurisdiction and what are the potential job losses?

**Mr. Simon McKeever:** I cannot give a hard figure but I will probably will be able to in a few weeks when we run our survey again.

**Ms Patricia Callan:** We sent a survey yesterday and we should have details available by

next week about the impact six months hence.

**Mr. Neil McDonnell:** I will start with the companies that have identified the problem and they are in the medium bracket. My chairman will refer to the defensive measures they are considering but many medium businesses are actively planning to embed business in the UK and they will not discuss those arrangements publicly because of the effect on employees here. Unfortunately, a great many small and micro businesses do not know the extent to which they are embedded in the UK supply chain. As we discussed with our IEA colleagues before we came into the meeting, they will find out when they have an unpleasant negotiation with their customers. This, therefore, will only emerge over the next number of weeks and months.

**Mr. Simon McKeever:** Many people are talking about the first quarter of next year as a critical time. The UK retail sector will be heading into the post-Christmas sales period and many retailers will not negotiate at the moment on price until the end of that. It is funny that sometimes when I do press interviews, I learn a lot about what the other side is worried about by the questions I am asked. I did an interview for a food magazine in the UK and I was talking about our price competitiveness position in the UK, but they are worried that the UK supermarkets will eventually have to put up prices and they will have no choice but to do that. They are all talking about the end of January and February as the time when the renegotiations may happen. The Unilever effect may force more suppliers to talk to the supermarkets in the UK. Many people in the UK are talking about the inevitability of prices having to go up in supermarkets eventually.

**Mr. James Coghlan:** I would like to pick up on the point made by Mr. McDonnell. We have some members who have, for example, purchased companies in the UK in order that they can move stuff across and match up their costs and revenues. Of course, that is what they will do. They face a serious hedging problem. The main problem is if a company's revenue is down significantly because of currency, either that is replaced or costs are reduced or a combination of both is used. One of the obvious questions is what should be done. On the cost side, the National Competitiveness Council, NCC, produces three key reports every year. In the first instance, we should apply the same rules as the Action Plan for Jobs process, which is that when a report of significance is produced, there should be responsibilities, timelines and actions to implement its recommendations. If currency goes the wrong way by 24%, a business has to reduce costs in the medium run. In the short run, clearly currency and working capital supports have to be provided. The bottom line in the food sector, for example, is if companies are to continue to do business in the UK, their cost base will have to be reduced by at least 15%. We have NCC reports talking about that year after year but nothing is done about it. Now is the time we have to do something about this, take it seriously and apply some rigour to the process. There are two issues - the currency and the export credits on the revenue side and the NCC issues on the cost side.

There is a third issue that the committee could consider. It has been a very long time since we have had a Culleton or Telesis report. We need to have a strategic review of Irish industrial policy from top to bottom. IDA Ireland is advocating foreign direct investment, which is great, and Enterprise Ireland is advocating for exporters, which is also great. Enterprise Ireland also looks after the micro-enterprises. The vast majority of employment in this country, however, is not represented by anybody. I am sorry to have to say that but it is the truth. There is no advocate within Government. There is no agency but there should be. I would be saying very strongly that we need to start thinking about those who create most of the jobs in this country and help them to get better and stronger and to start thinking about exporting and other activi-



ties. That is another issue.

The term of the Action Plan for Jobs normally finishes at this time of the year. It may be finished already. Perhaps we need to review it and Brexit-proof it. I am not sure whether that has been done. There is a lot of work to do and we need to get ourselves organised very quickly. Quarter 1 of next year is when a lot of stuff will begin to fall off the back of the truck.

**Senator Aidan Davitt:** I appreciate the stark message and warnings the delegates have provided. Some chilling words have been said. Some of our producers and exporters are not aware of the problems they will face down the line. As Mr. McKeever said, if products can be bought more cheaply in England, the guy down the road, the small business, will be really hurt. Many of these people do not see the problem staring them in the face.

We are trying to solve this problem and determine how we can cope with it. We are examining costs and talking about the co-location of businesses, action plans, training and other measures we have heard about today. However, the real elephant in the room is the currency. I am curious to learn from all those who operate at the coalface whether they or their organisations would contemplate staying in the European Union but reverting to a punt, with some possible link to sterling or the euro? I refer to some type of floating punt currency. We may be trying to solve everything else instead of tackling the real problem. This problem will not go away. If we stay within eurozone, which I presume we will be doing in the short term, and if we deal in euro, we will have to contend with the value of sterling going up and down. The UK is the market to which we export most. Perhaps we should go back to basics or to where we were before the euro. Perhaps we should consider a floating currency.

**Chairman:** Who would like to reply?

**Mr. Simon McKeever:** I have not been working with currencies for a number of years. The question of whether we should have a floating currency linked to sterling has come out of left field. I will answer in a slightly different way from that which might be expected. The extreme volatility we are currently seeing in the currency market is likely to continue. Right now, much of the bad news we have heard is probably priced into it but we do not know what will happen in the next few months. I am not sure whether I advocate a floating punt because, as a country, we have very small reserves by comparison with the European Central Bank. In answering, I am thinking completely left field also. We could find ourselves in circumstances in which the punt could become extremely devalued if the economy were to come under attack. From an exporter's point of view, it might be a good idea. From an importer's point of view, it would not be good.

Could I expand a little on the currency piece? I mentioned that we came up with a national hedging strategy. I had seen something like it done in another country approximately 20 years ago. The export credit insurance risk of the country, as a national phenomenon, was managed by a particular entity using synthetic options. One could have a vehicle in the NTMA, perhaps, that knows how to manage the risk. Rather than pouring €200 million, €300 million, €400 million or €500 million into an enterprise development fund, could it be poured in to manage a set of options such as those I describe? Somebody needs to pick up the telephone because there has to be a different approach with Brussels at present if there is to be a breach of state-aid rules. It is possible that a hedging strategy could be put in place at national level and that a reduced or subsidised rate could be given, particularly to smaller businesses.

On hedging, we have all mentioned different kinds of statistics. Our figure for what is on

hedge is approximately 50% but we have range of companies in it, from small to very large. It is done in a very peculiar way in this country in that a company, unless it is very sophisticated, is relying on its bank. When I worked in the banks, foreign exchange procedures were such that when amounts of sterling came into one's hold account, the trader rang and said it was in and asked whether one wanted to trade on that day. One checked the rate and if it was not favourable, one decided to wait and wait and wait. The professionalism associated with understanding currency risk does not exist in smaller businesses, so we need to have an action plan on that. In small businesses, the trusted adviser is the accountant. Smaller accountants, in particular, do not understand that the management of the risk needs to be built strategically into one's business management. Therefore, it is not about the rate of next week or month. We are all talking about the first quarter next year. It is a question of determining the risk associated with the currency being valued at X, Y or Z next March, April or May and what one should do about it. Unfortunately, the organisations that know about this stuff, namely, the banks, do not command trust. I have stood up publicly in a chartered accountant's house and asked whether they could develop a continuous professional development programme to help smaller accountants and businesses to understand the exchange rate movement. I am sorry I did not answer the question.

**Mr. Neil McDonnell:** A sensible honest answer to that question is that it depends. I am an old enough to remember the exchange rate mechanism crisis and what happened to mortgages in the country at that time. Do members recall that crisis? A major consideration for an export company is whether the balance of its trade is in the eurozone, sterling zone or elsewhere. There are countries in Europe, such as Denmark, that have their own currencies. Effectively, it ends up being a euro surrogate. They are managing it a little bit. It sounds like I am trying to avoid answering the question but I believe that we should at least have a contingency plan. The committee will have heard much talk about what could happen to Italy, for example. If the euro is to go through another huge crisis and sterling actually starts to look attractive again as a reserve currency, would it not be great to have a contingency plan for circumstances in which we had to opt for the punt mark II? Would it not be great to know that we had printing presses identified that would be able to run off the currency quickly? Would it not be great to know that we had somewhere to store it? A few hundred tonnes of the currency would do. We have the place to store it. People will know one is serious if one is actively planning and is ready to push the button.

**Senator James Reilly:** I thank the witnesses for their presentations. There was a lot of food for thought - pardon the pun. I am acutely aware of some of the issues the delegates have raised, particularly in respect of food producers. Even some of the bigger ones, with perhaps 300 people working for them, have a major fear of cheap imported products. North County Dublin has approximately 35 to 40 farmers or horticulturists who produce approximately 65% of the vegetables in the country. They are always at loggerheads with the retailers. They fear a time when the 40-footers will start coming in with the cheap produce and put them out of business. In five years, when the 40-footers stop coming, perhaps, the skill set will be lost. That is a real concern. Some suggestions have been made on what the Government might look to. Clearly, there is a great deal of work to be done in trying to achieve what has been described and keep within state-aid rules. Obviously, the Taoiseach has already made it very clear that he has presented Ireland's case as a very special one, particularly in light of the Border, the peace process and our exports to and relationship with the United Kingdom.

I have a question for Ms Callan. What percentage of the small firms represented by the Small Firms Association that have fewer than 50 employees have a proportion of exports to the United Kingdom that is greater than 25% or 50%? It seems that some companies are very

exposed while others are not.

Mr. McKeever asked chartered accountants to become more knowledgeable about exchange rates and what they mean. How does he suggest we go about informing the small operators about their exposure, of which they seem to be unaware even by the witnesses' own admission, without causing wholesale panic? This is a question for everybody.

**Ms Patricia Callan:** In terms of indigenous companies exporting, 43% of everything indigenous companies send is to the UK market. Certainly among our members, my sense is that it is fundamental and really where their main base is. It will still be a massive country and opportunity for us. Ultimately, if the UK is to be their sole market, those guys have to decide whether it makes more sense to locate there. If they are going to have more trade into the EU, it is more attractive to be here.

In respect of exchange rates, obviously, it is very sophisticated. The guys who trade currencies used to be paid a fortune. The Strategic Banking Corporation of Ireland produced a seminar for members and another seminar with various agencies on Brexit for members will be held tomorrow night. A very interesting point was raised about possibly looking at more innovative forms of financing and getting away from thinking about hedging. For example, something like invoice discounting where one actually gets paid in real time is a hedge in and of itself. By moving or shifting one's logic away from normal overdrafts and term loans into alternative financing methods, there could be a natural hedge and it might give those sorts of products a lift. That is certainly something we should look at.

**Chairman:** Does anybody else wish to speak?

**Mr. Simon McKeever:** In respect of our statistics on our overall membership, about 30% of our membership send more than 25% of their exports to the UK. In respect of currency, I am not quite sure they do not know. I think there is an awareness that Brexit is out there and people are worried about it, certainly among our members. It is more the fact that the way we have always done this is that one year there is a particular rate but it all balances out over three or four years. There is a lack of an acute awareness that something has completely shifted in all this. It is wall-to-wall Brexit in all media. Certainly everything we are doing is very Brexit-focused. It is more a case of because we have done it like this for the past number of years, we will come around again in three or four years' time when the rate is back down to 69p or whatever it was. One gets a sense that the currency has rebased higher so one might not see 70p again. One might see 80p but not 70p. It has shifted up.

**Chairman:** Might we see 100?

**Mr. Simon McKeever:** Yes, definitely. The risk is definitely upwards. When one looks at what happens next year, we will have all these elections in Europe. There will be greater volatility in the currency because it will not be all about the UK and what it is trying to do. There will probably be a very loud row between the UK and Europe but many politicians in France, the Netherlands and Germany will have to focus on politics in their backyard and I think this will generate a lot of noise. It is euro-sterling so they are looking at the UK economy and what is going on in Europe. One may well have increased volatility. As one goes through the Italian banking piece, there will a referendum in December and the Dutch election will be in March. It is quite difficult to say exactly where this is going. The risk is definitely to the upside. The Houses of Parliament in the UK could have a debate on it, so I think there will be extreme volatility.

We have an agency that is focused on getting foreign direct investment into the country, so it is out there selling our wares all around the world attracting non-Irish companies to the country. We have an agency that is all about enterprise development and some exporting. Is anybody talking to all these companies we all mentioned - the ones thinking about moving jobs to the UK and thinking about displacing the smaller suppliers into them? Is anybody talking to the guys with the ten or 20 jobs to help them to keep jobs in the country? What supports are we providing? We are throwing money at the bigger companies to persuade them to come to Ireland and are certainly supporting the exporting companies but what are we doing to keep those jobs in the different regions around the country? I would back up what was said earlier. The bigger business people are saying this to my face but there is no way they will go on the public record to say this. It is a very active thing that is going on at the moment.

**Senator James Reilly:** I want to clarify a point I made earlier. I would not be surprised if Mr. McKeever's members, who are exporters, are acutely aware of it but I think what Ms Callan was alluding to was the fact the smaller fellows down the line who are making the little bits and pieces in supplying the exporter will think that it has nothing to do with them and that they have their little job and will do their little bit. They do not realise that it is going to come down the road to them as well. When Dell left Limerick, we all know the impact on the economy was not just the loss of the workers' jobs there but the effect on all the suppliers, the little shops and all the other parts of the community that feed into that and sometimes do not understand the impact. It is worrying that the Small Firms Association sees that. We need a strategy to inform them in a way that does not alarm them but prepares them. This is something I will take away from today.

**Mr. James Coghlan:** We would find a similar situation. What we must remember if we are not aware of it is that we have just come out of a great recession that was eight years in duration. Balance sheets are extremely weak so if we are now going to be hit with another storm, the ability of SMEs to withstand that will be sorely tested. Their ability to defend themselves is sorely weakened. We all have to remember that as well.

**Senator Paul Gavan:** I thank the witnesses for their presentations. I thought they were terrific. I want to ask about Enterprise Ireland. Figures that have been released to this committee tell us that Enterprise Ireland is operating with 170 fewer staff than it was five years ago. As we face this huge challenge in terms of Brexit, do the witnesses have any thoughts on that because it strikes me that Enterprise Ireland, which has some excellent people, is significantly understaffed to face this crisis? Staff cuts in the past five years have been in the region of 20%. I have spoken to people at a high level within that organisation who have told me that they are very concerned about a knowledge loss that has occurred. It is quite extraordinary that it had an early release package for staff last year when we knew that Brexit was a possibility although we did not see that it was going to happen. I would be interested in hearing the witnesses' opinions on that.

I was really intrigued by what Mr. McKeever said about national exports. How can Government help further? Ms Callan's presentation was excellent but I must ask what her problem with joint labour committees is. There is only one in operation. It is a cleaning joint labour committee. It is a shame because there is so much we agree on in terms of what Ms Callan is saying but she does not seem able to resist an opportunity to have a pop at trade unions trying to provide a decent living for people. I cannot understand how a joint labour committee can threaten anyone right now but if Ms Callan would like to tell me how it could possibly be a threat, I would be intrigued.

**Ms Patricia Callan:** It is very important that our agencies are properly resourced and have the skills base but from where we sit, most of our members are not clients of any of those agencies and that is the point we have been trying to make. That is not to say that they are not exporting. I have companies that have 12 people and are in 60 markets but have never been near Enterprise Ireland. In terms of our focus and approach to these things, the Department tends to view them through the lens of the agencies. What we are really trying to say is that there is a much bigger cohort of businesses out there that we need to look at if we are designing supports. We certainly need expertise, knowledge and practical assistance on the ground. Enterprise Ireland was very quick off the mark in terms of producing a lot of information and touching base with our clients. However, in terms of rethinking entire business plans, we need to get into really high-level stuff. The time for getting the basic information and so on is over. We now need strategic high-level interventions. We get the most positive feedback from our people abroad who are outstanding on the ground in creating those business links but, equally, I have found in recent years that the embassies here are also very good at doing that. We could be more creative in not just relying on our agencies but figuring out how we could engage those people better to work on our behalf and create joint business propositions in their countries. That might be an option also.

In terms of the comments about the joint labour committees, JLCs, it is part of my submission around cost competitiveness. Going back to the point about eight years of recession, my biggest concern when the recession hit was that there was a lot of fat, so to speak. Businesses were able to cut costs. They renegotiated their energy costs, input costs and so on. The point about smaller companies is that they are price takers, and labour costs ended up being one of the few areas under people's control so what did we see? We saw people lose their jobs, redundancies and people put on short time because wages were simply uncompetitive. As we got into the recession we saw that industries that had the flexibility negotiated voluntary decreases to allow people stay in their jobs. We need that level of flexibility. The problem with measures like the joint labour committees, which is my fundamental question, is that they existed when we had no labour law. We now have 40 labour law measures and whether someone employs one or 4,000 people, they still need to know them all. Equally, we have a National Minimum Wage Act. If we have a national minimum wage across the board, why do we need these additional agreements on top of that?

**Senator Paul Gavan:** So that people will get paid more than the minimum wage.

**Ms Patricia Callan:** Yes, but in contract cleaning that cost is simply passed back on the users of that service. The cleaning companies are fine because they will just add a percentage on to the cost and charge it but in terms of those costs piling on to businesses, can they afford that? We have to keep a constant eye on it. From our members' perspective, if we have 40 employment law measures and a national minimum wage, why do we need even more restrictions on top of that?

**Senator Paul Gavan:** Possibly because we still have many people on extremely low wages.

**Ms Patricia Callan:** The last time I checked our national minimum wage is 15% higher than that in the United Kingdom, and this entire conversation is how we are competitive *vis-à-vis* the UK. Many member companies that have businesses here and in the North will tell the Senator how much more affordable it is to operate in the North. We have to be conscious of that even in the context of pre-Brexit shifting operations. I am not saying we should throw it out, but we have to be conscious of the impact of it.



**Senator Paul Gavan:** I could take that point.

**Senator James Reilly:** We invited the delegates here to discuss Brexit. I understand Senator Gavan's interest in the area of JLCs and the reason he might ask somebody from the Small Firms Association-----

**Senator Paul Gavan:** It is in the presentation.

**Senator James Reilly:** With due respect, we have had a very good meeting. The issue the Senator is raising now is of a different nature that possibly should be addressed in another meeting.

**Senator Paul Gavan:** Which is the reason I asked why it was included.

**Senator James Reilly:** I am saying that I believe we have had a good discussion. It has been very positive, and I would like the meeting to end on a positive note.

**Chairman:** It has been a long meeting. I thank Ms Callan. I call Mr. McDonnell to conclude, who will be followed by Mr. McKeever.

**Mr. Neil McDonnell:** To explain to Senator Gavan, I do not want to give the impression that anyone in small business is antagonistic to raising wages. I was not aware that was in the Small Firms Association, SFA, submission but I am glad he raised it. I will give the Senator an example of the difficulty it presents, and this is what is called the issue of cost transmission. The recent arrangement on contract cleaning lifts the minimum wage in that sector and gives a planned series of rises over €10. The interesting aspect is that it does not apply to workers in the hotel sector. In terms of what will happen, therefore, small contract cleaning businesses employing cleaners in hotels will lose those businesses to hotels which will employ people on a generic contract where they will do that work at minimum wage.

**Senator Paul Gavan:** I could not agree more. That is why trade unions have been encouraging the Irish Hotels Federation, which receives a €620 million subsidy in VAT each year, to engage with the JLC system. Unfortunately, it has refused to do so to date.

*(Interruptions).*

**Mr. Neil McDonnell:** Can I extend that point further and explain the difficulty? I am trying to be helpful in terms of the position the Senator represents to his membership, and I know he has a difficult furrow to plough from time to time. Very good research was done this summer in University of Washington, Washington state, where there was a substantial increase in the minimum wage from \$9.50 to around \$11. When they analysed the effect of what actually happened - this is what is called cost transmission - the ability of certain businesses to recover that hourly increase did not exist. While the hourly rate increased, the total amount those workers got fell. What the Senator would call P60 earnings dropped because those businesses had to maintain the total cost of manpower. That is what happened. Unfortunately, that is what happens in the real world. I regret to say we will see more of that, especially if the United Kingdom, about which we are very concerned, gets hyper-competitive in that area. That is a real concern. We are afraid that what is happening on the minimum wage and the so-called living wage front will put more people on social supports rather than in employment.

**Chairman:** I call Mr. McKeever to conclude and ask him to be brief.

**Mr. Simon McKeever:** Briefly, there were two questions on Enterprise Ireland, EI, and our national export hub. In terms of whether Enterprise Ireland should have more resources, there are two sides to that. We need more resources in our external facing piece. There are already a number of resources there. We are not very well co-ordinated across our embassies. In terms of the EI people, IDA Ireland and Bord Bia, that starts with a collective approach here in Ireland where there may be a governing board sitting over all of those agencies. There are more resources and by putting them together we would get more out of them.

As Ms Callan said, EI does not cover every company in the country. One of the reasons the Irish Exporters Association exists is because we provide them with a good deal of support. Do they need more resources? They could get the skill set right. Another question is whether they need expensive internal resources or could that be farmed out.

In terms of our national export hub, we would welcome further discussion on that. We use the funding to employ people to be able to help small businesses in the main. It is our small business proposition. Next year, we will have two very large events in different parts of the country and we will then start working with companies in a very hands-on fashion to teach them how to export. Enterprise Ireland has chosen not to be involved in that programme with us but the Department of Foreign Affairs and Trade is involved in it with us. The local enterprise offices, LEOs, come in and out of it. In fact, we are developing a piece for the LEOs and we will be launching something with them. We would welcome further engagement with Government on that.

**Chairman:** I thank all the witnesses for attending today and for the very frank discussion. I apologise again for keeping them earlier. We had a finish time of 6.15 p.m. but we started at 4.30 p.m. and ran quite late. That concludes all the business on today's agenda.

The joint committee adjourned at 8 p.m. until 4 p.m. on Tuesday, 6 December 2016.