House of Commons

Northern Ireland Affairs Committee

Northern Ireland and the EU referendum

First Report of Session 2016–17

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Northern Ireland Affairs Committee

The Northern Ireland Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Northern Ireland Office (but excluding individual cases and advice given by the Crown Solicitor); and other matters within the responsibilities of the Secretary of State for Northern Ireland (but excluding the expenditure, administration and policy of the Office of the Director of Public Prosecutions, Northern Ireland and the drafting of legislation by the Office of the Legislative Counsel).

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Committee reports are published on the Committee's website at www.parliament.uk/niacom and in print by Order of the House.

Evidence relating to this report is published on the inquiry publications page of the Committee's website.

Committee staff

The current staff of the Committee are Robert Cope (Clerk), Philip Larkin (Committee Specialist), Nick Taylor (Senior Committee Assistant), Dominic Stockbridge (Committee Support Assistant) and George Perry (Media Officer).

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1 Introduction

1. On Thursday 23 June 2016 the UK electorate will be asked to vote on the question: “Should the United Kingdom remain a member of the European Union or leave the European Union?”. The referendum is a once-in-a-generation event, the outcome of which will have profound implications for the UK in a number of respects. With polls suggesting the ‘Remain’ and ‘Leave’ campaigns are closely tied, the votes of Northern Ireland’s 1.2 million electors could be crucial in determining the final result. This Report seeks to examine the issues which we believe should be amongst the most relevant to the electors in Northern Ireland when considering how to cast their votes.

The EU Referendum Debate

2. Until recently at least, debate about the EU referendum in Northern Ireland has been relatively muted, being more focused at the national level, with little Northern Ireland-specific input. Conor Houston, the then Director of the EU Debate NI programme at the Centre for Democracy and Peace Building, told us his programme had been set up specifically because it was felt “there had been little or no discussion, both in civic society and business society”.[1] Dr Lee McGowan from the School of Politics, International Studies and Philosophy at Queens University Belfast reiterated this, stating: “[…] what we do not have is a debate with the wider public. It is taking place among academics and businesses, but in the wider public there is no real debate yet about the EU and what it means”.[2]

3. It does seem as if the debate in Northern Ireland has lacked the intensity that party politics in Westminster has given it. Power-sharing between parties with differing views has meant the Northern Ireland Executive has not been able to articulate a clear position around which debate can focus in the way that has been the case in Scotland, for instance.[3]

4. This relatively muted debate appears to contrast with the situation in the Republic of Ireland, where there has been substantial attention devoted to a Brexit and the possible consequences south of the border. Irish governments have been quick to warn the UK of the detrimental effects of leaving the EU, clearly concerned about the possible consequences on their own economy, which is still recovering from its sovereign debt crisis. Some of the analysis of the possible consequences of a Brexit for Northern Ireland has come from the Republic.[4] The Republic of Ireland has also highlighted its unique interest in terms of what the current Ambassador for Ireland described as the Republic’s “ties with Britain and for the north-south relations in Ireland”.[5] Yet the process of maintaining relations in the event of a decision to leave the EU would create a different dynamic. Whatever the outcome, it would be crucial that these relations were maintained.

5. However, there are good reasons why Northern Ireland warrants special attention in the EU referendum. Northern Ireland is the part of the UK whose economy is most dependent on EU trade. In the event of a vote to leave, it will be the only part of the UK

1 Q234
2 Q3
3 The recommended positions of the five main political parties, as well as the TUV and the Green Party were outlined in oral evidence to the Committee during its visit to Stormont. See Qq298-524
4 For example, see A Barrett et al, Scoping the Possible Economic Implications of Brexit on Ireland ESRI Research Series Number 48, November 2015; and Dáithí O’Ceallaigh and Paul Gillespie (eds) Britain and Europe: The Endgame - An Irish Perspective, Institute for International and European Affairs, March 2015
5 Q121

that has a land border with a Member State which will, in effect, become the external frontier of the EU.[6] Of course, Northern Ireland's greater exposure to the EU is largely due to its relationship with the Republic of Ireland. The ability of farmers and companies to do business across the border and for continued cooperation between governments in a range of areas, including trade promotion and policing, in the event that the UK leaves the EU, are fundamental to the potential impact on Northern Ireland.

"Known unknowns"

6. There are a range of uncertainties, or "known unknowns" in the words of the former US Secretary of Defence, Donald Rumsfeld, that make predicting the future impact of the EU for Northern Ireland with any accuracy impossible. The most obvious "known unknown" is that we do not know what type of relationship the UK will have with the EU in the event of a vote to leave. Several types of relationship with the EU have been posited in the event of a Brexit. They represent distinct alternatives but are essentially different points on a continuum that sees access to the Single Market increase in return for contributions to the EU budget and compliance with EU regulations (see paragraphs 24 to 35). Whilst a number of attempts have been made to model the economic impact of each of these, it became clear during the Committee's discussions in Brussels that other unknown factors left the Commission unable to provide any further information on potential post-Brexit arrangements ahead of the referendum vote. Those who advocate leaving the EU tend to emphasise that, in the event of a vote to leave, it will be in the interests of the EU to prioritise negotiations with the UK and to conclude a deal swiftly, largely because of the trade surplus that the rest of the EU enjoys with the UK. In purely economic terms, it would be mutually beneficial to do so. Countries across the world sell their products into the Single Market—by which we mean consumers in the EU—so there should be no reason why the UK could not have similar access in the event of Brexit. On the other hand, those who advocate remaining in the EU emphasise that negotiations on an agreement could take years to conclude and the terms will inevitably be less favourable than those the UK currently enjoys. There is no incentive, they argue, to allow the UK to enjoy access to the Single Market whilst being free to ignore regulations that it finds costly, inconvenient or unpopular.

7. In the event of a vote to leave, the most likely option would be to use the process for the exit of a Member State set out under Article 50 of the Treaty on European Union. Once triggered, Article 50 provides for a maximum two-year period during which the terms of the exit are negotiated, which can only be extended with the agreement of all 27 remaining Member States.[7] It will not be until those negotiations are complete that the detail of the post-Brexit relationship with the EU will be known. However, economists who gave oral evidence to us believed there would be an initial downturn in the economy in the period following a decision to withdraw from EU membership, but there was clear disagreement about the rate of future growth.

8. There are also domestic uncertainties. For instance, much has been made of the billions of pounds that currently comprise the UK's contribution to the EU's budget which will become available to the UK Government in the event of a vote to leave, sometimes referred to as the "fiscal windfall". The UK is one of the largest contributors to the EU. After

6 Gibraltar is not part of the UK, but it is treated as though it is in respect of the UK's membership of the EU.
7 HM Government, The process for withdrawing from the European Union, Cm 9216, February 2016

rebates, in the most recent year it contributed nearly £9.8 billion or 11% of the total EU budget, with only Germany and France contributing more.[8] The UK receives back some funds through various schemes such as the Social Fund and the Common Agricultrural Policy (CAP). Table 1, below, gives some of the main funding schemes and the amounts for the current 2014–20 funding round.

Table 1: Northern Ireland Structural Funds and CAP allocation 2014–20[9]

EU FUNDING 2014–20[10]	€m
European Regional Development Fund	308 million
European Social Fund Programme	183 million
INTERREG VA	240 million
PEACE IV	229 million
European Fisheries and Maritime Fund	24 million
Rural Development Programme (CAP Pillar 2)	227 million
CAP Pillar 1[11]	2,299 million

9. In addition, there are funds available through schemes such as Horizon 2020, the EU's €80 billion fund to encourage research and innovation, of which the Northern Ireland Executive has set a target to secure at least €145million, 65% more than Horizon 2020's predecessor, the Framework 7 programme. Unfortunately, there are no robust statistics on the extent to which Northern Ireland specifically is a net contributor or beneficiary of EU funds.

10. The size of any fiscal windfall will depend on the outcome of the exit negotiations and whether, for example, the UK agrees to make a continued contribution to the EU's budget in return for market access under the terms of any trade deal. There is also uncertainty about the uses to which this fiscal windfall would be put, with no guarantee that it will be used simply to replace any lost EU funding.

Our Inquiry

11. Our inquiry has primarily focused on those areas where we feel that leaving the EU would raise Northern Ireland-specific issues. These included the interrelated areas of trade, commerce and the economy and the future of the border with the Republic of Ireland. We also found that agriculture was of sufficient significance to be dealt with specifically. We have tried to focus as far as possible on Northern Ireland alone. Clearly Northern Ireland will be affected by UK-level concerns, such as the outcome of the Transatlantic Trade and Investment Partnership (TTIP) negotiations, developments in the Eurozone, as well as issues surrounding sovereignty and democractic control. However, we were keen to avoid being drawn into national level debates except where there is a specific Northern Ireland dimension to them. These national level issues are addressed in inquiries by other committees, including the Treasury Committee and the Foreign Affairs Committee.[12]

8 HM Treasury European Union Finances 2014: statement on the 2014 EU Budget and Measures to Counter Fraud and Financial Mismanagement, Cm 8974, December 2014, p 1

9 *Exiting the UK: Impact in Key Policy Areas*, House of Commons Library Briefing Paper 07213, (June 2015, p 49; "Allocation of Structural Funding Across the UK", Department of Business Innovation and Skills and Rt Hon Michael Fallon Press Notice, 26 March 2013

10 Exiting the UK: Impact in Key Policy Areas, House of Commons Library Briefing Paper Number 07213, February 2016

11 "CAP Allocations Announced" GOV.UK Press Release, 8 November 2013

12 See Foreign Affairs Committee Fifth Report of Session 2015–16, Implications of the Referendum on EU Membership for the UK's Role in the World, *HC 545; and Treasury Committee, Economic and financial costs and benefits of UK's EU membership, HC 499*

12. We took evidence from the Northern Ireland CBI, the Northern Ireland Institute of Directors, the Northern Ireland Federation of Small Businesses, the Institute for International and European Affairs, Dr Leslie Budd (Open University), Professor Neil Gibson (Ulster University), Dr Graham Gudgin (Cambridge University), Professor Dagmar Schiek, Dr Cathal McCall, Dr Lee McGowan (all Queen's University Belfast), the British-Irish Chamber of Commerce, the Centre for Democracy and Peace Building, the Northern Ireland Independent Retailers Trade Association, SONI Ltd, the Police Service of Northern Ireland, the Ulster Farmers' Union, and representatives of the Alliance Party of Northern Ireland, Democratic Unionist Party, the Green Party in Northern Ireland, the Social Democratic and Labour Party, Sinn Féin, Traditional Unionist Voice, and the Ulster Unionist Party, and the Parliamentary Under Secretary for Northern Ireland. We thank them and those that made written submissions for their contribution. We also thank the Speaker of the Northern Ireland Assembly for allowing us to take oral evidence at Parliament Buildings in Stormont.

13. The Government has set aside collective responsibility in respect of the referendum to allow Ministers who wish to do so to campaign for the UK to leave the EU.[13] However, the Cabinet Office guidance on Civil Service support for Ministers states that it is not appropriate or permissible for officials to support Ministers who oppose the Government's official position by providing briefing or speech material on the matter.[14] Furthermore, while Ministers are free to express their personal views in media and other debates and discussions, they are required to follow the Government line when speaking in the House of Commons, including when giving evidence to Select Committees. For this reason, it would not have been useful to take oral evidence from the Secretary of State for Northern Ireland, the Rt Hon Theresa Villiers MP, who is campaigning for the UK to leave the EU, as she would have had to simply state the Government's position rather than have been free to give us her own views. The Parliamentary Under Secretary of State, Mr Ben Wallace MP, instead provided a defence of the Government's official position. We believe, however, it would have been valuable to hear also from the Secretary of State on her position, given her overall responsibility for many issues affecting Northern Ireland and, as a former MEP, she may well have given us interesting insights.

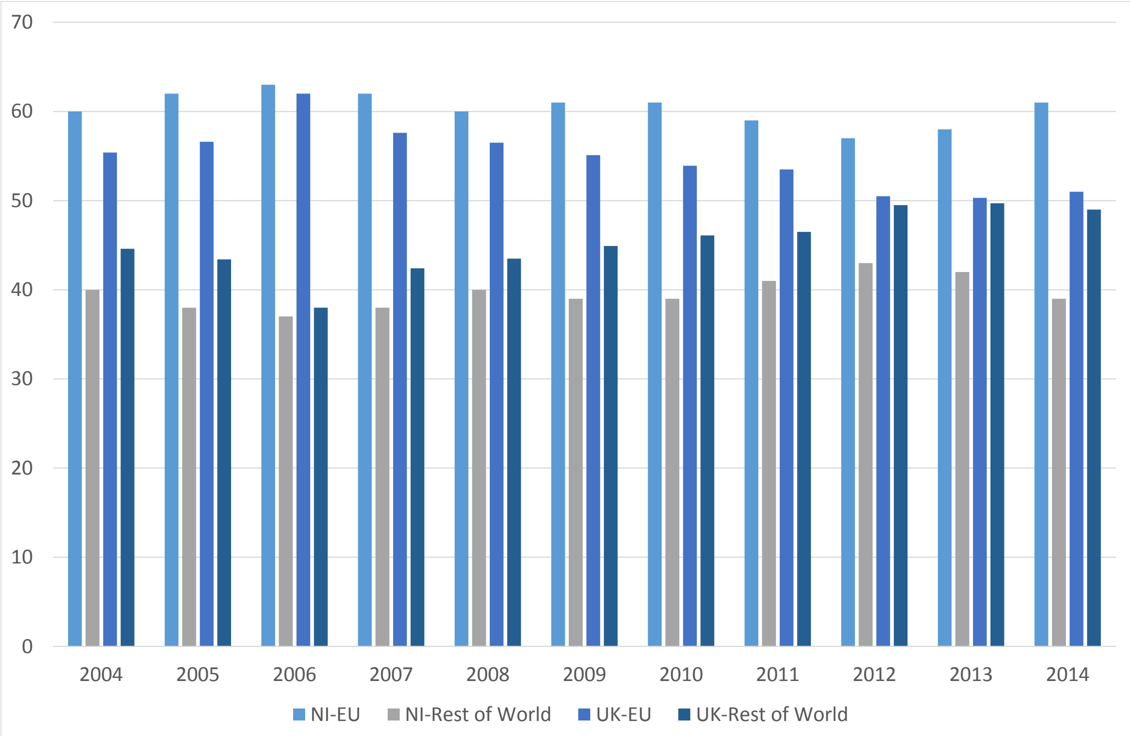
13 Prime Minister, "Personal Minute to Ministerial Colleagues – EU referendum", 11 January 2016
14 Cabinet Office, "EU referendum – Guidance for the Civil Service and special advisers", 23 February 2016

2 Trade and Commerce

Northern Ireland's Trade with the EU

14. Figure 1 below compares Northern Ireland's trade with EU and non-EU countries with the UK's. It highlights the extent to which Northern Ireland's trade has been predominantly with EU nations. The proportions have not changed significantly in spite of continuing sovereign debt problems in the Eurozone.

Figure 1: Northern Ireland and UK Trade Compared (%)



Source: The EU Referendum and Potential Implications for Northern Ireland, NIAR32–16, Northern Ireland Assembly Research and Information Service, January 2016

15. This higher reliance on EU trade is largely accounted for by cross-border trade with the Republic of Ireland (see Table 2). In 2015, the Republic accounted for 61% of Northern Ireland's exports to the EU and for 34% of Northern Ireland's total exports. It also accounted for 49% of imports from the EU and 27% of total imports.

Table 2: Northern Ireland's top five export and import partners

Exports			Imports		
Country	Year ending Sept 2015 (£m)	% Total exports	Country	Year ending Sept 2015 (£m)	% Total imports
RoI	2,133.4	34.1	RoI	1,647.1	26.8
USA	1,047.1	16.8	China	1,056.8	17.2
Canada	367.7	5.9	USA	497.6	8.1
Germany	333.8	5.3	Germany	365.1	5.9
France	307.6	4.9	Netherlands	342.3	5.6

Source: HM Revenue and Customs, Regional Trade Statistics Third Quarter, 2015, p 20

16. The HMRC figures primarily focus on manufacturing rather than services. The Northern Ireland Statistics and Research Agency (NISRA) has an experimental dataset under development which includes services. For 2012, the NISRA data puts total Northern Ireland exports at £8.8 billion, of which 37% went to the Republic, 20% to the rest of the EU, and 43% to non-EU countries. In sectoral terms, the largest is manufacturing, with 60.9%, followed by wholesale and retail with 17.5% (£1.6 billion), with construction, agriculture and 'other services' accounting for the bulk of the remainder.[15]

Estimating the economic impact of a Brexit

17. Calculating the costs and benefits of EU membership can be done in different ways, leading to different results. Work by the House of Commons Library notes that studies that find the EU to be a net cost to the UK typically base this on attempts to calculate the sum total of the costs of EU-derived regulation and budget contributions. On the other hand, those that find EU membership to be beneficial to the UK tend to emphasise the gains from trade flows and foreign direct investment (FDI) that they believe would be lower outside the EU.[16] In evidence to us, Dr Graham Gudgin of Cambridge University's Centre for Business Research made a similar point: "If you look at the methodology and the ways in which these studies have been done, all of them have different assumptions about whether we have a free trade agreement or not. You can pretty well predict the result from knowing what the assumptions are".[17]

18. The economic impact of a Brexit is uncertain. The costs of withdrawal may not be symmetrical (i.e. the costs associated with remaining may not simply be reversed on leaving, nor all of the benefits lost) and we cannot know the way in which the UK economy may or may not adapt to leaving. In particular, we cannot know the terms under which UK firms will be able to access the Single Market in the event of a vote to leave; the scale and terms of any trade deals with non-EU countries that the UK is able to negotiate if it is outside the EU; the impact of these on the nature and volume of FDI; the uses to which UK governments would put the money that had previously gone to the EU budget; nor the immigration policies that they might adopt.

19. Because of this, attempts have been made to model a variety of possible post-Brexit arrangements. HM Treasury (which reflects the Government's support for remaining in the EU) modelled three separate Brexit scenarios: membership of the European Economic Area ("the Norway option"); a bespoke Free Trade Agreement; and no agreement, with trade conducted under the World Trade Organisation's (WTO) "Most Favoured Nation" (MFN) system of tariffs.[18] It found that leaving the EU could lead to a lower growth rate of between 4.3% and 9.5% of GDP over the course of 15 years, depending on the nature of the UK's trading relationship with the EU (see Table 3). It should be stressed that the forecast is for the UK to continue to grow outside the EU, but slightly more slowly: as with most analyses of the economic impact, the figures given are for foregone growth rather than a loss.

15 NISRA, *New Northern Ireland Exports Estimates (Goods and Services) 2012*

16 *The Economic Impact of EU Membership*, Standard Note SN/EP/6730, House of Commons Library, 2013, p 5.

17 Q8

18 HM Treasury, *HM Treasury Analysis: The Long-Term Economic Impact of EU Membership and the Alternatives*, Cm 9250, April 2016, p 85–93

Table 3: Annual impact of leaving the EU after 15 years (remaining in the EU=0)

	EEA	Bilateral	WTO
GDP level (%) (mid)	-3.8	-6.2	-7.5
GDP level (%) (range)	-3.4 to -4.3	-4.6 to -7.8	-5.4 to -9.5

Source: HM Treasury, HM Treasury Analysis: The Long-Term Economic Impact of EU Membership and the Alternatives, Cm 9250, April 2016, p 6

20. Economic forecasting is an inexact science—assumptions are made and uncertainty is inherent. Those in favour of leaving the EU have rejected the Treasury's analysis as propaganda and dismissed some of its headline findings—its estimate of the loss per household, for instance—as scaremongering and misleading. It is, however, broadly consistent with other analysis, albeit towards the top of the range of estimates.[19] However, some perspective is needed—Government forecasts often need correcting between one year and the next, so its estimates of growth rates over 15 years can be regarded as indicative at best. Furthermore, whilst its analysis may be plausible, the Treasury's analysis has made assumptions about future trade relations and immigration that downplay the potential gains from a Brexit.

21. The impact is even harder to estimate at sub-national level which is perhaps why so few attempts to do so have been made.[20] Dr Leslie Budd of the Open University Business School attempted to extrapolate from UK figures to estimate the result of a Brexit on Northern Ireland. As the trend rate of growth for Northern Ireland has been approximately a third lower than that of the UK, if the average estimated impact at UK-level is for a 2% reduction in the rate of GDP growth, Northern Ireland would see GDP grow approximately 3% more slowly. However, Dr Budd conceded that, such was the uncertainty surrounding the circumstances of a Brexit, such a prediction could only be a guestimate.[21] Signifcantly, his 3% figure does not allow for the uncertainty surrounding the nature of the trading relationship with the EU in the event of a Brexit. A more recent study by Oxford Economics does do this, however, and it again highlights the significance of 'known unknowns'.[22] Again, they model a range of scenarios which differ according to the trade relationship with the EU as well as the domestic policy approach adopted in the event that the UK leaves. The range of scenarios they model produce outcomes that range from a negligible net loss of Gross Value Added (GVA) of -0.1% by 2030, where the UK and EU agree a wide-ranging free trade deal, to a more damaging -5.6%, where no deal is signed and trade is conducted under MFN rules. Significantly, the distinct composition of the Northern Irish economy indicates that it will be affected differently from the UK as a whole by a Brexit. In all but two of their nine scenarios, the effect of a Brexit on Northern Ireland is worse than it is for the UK (in one of the scenarios it is equivalent; in one other, better).[23] Northern Ireland would be particularly badly hit if no trade deal at all was agreed. The UK would also be negatively impacted but by rather less than Northern Ireland.

19 S Dhingra et al, *The UK Treasury analysis of 'The long-term economic impact of EU membership and the alternatives': CEP Commentary*, Centre for Economic Performance Paper, CEPBREXIT04, April 2016

20 L Budd, *The Consequences for the Northern Ireland Economy from a United Kingdom exit from the European Union*, Briefing Note CETI/OU 2/15, March 2015

21 Q3 [Leslie Budd]

22 Oxford Economics receives some of its funding from EU sources

23 Oxford Economics, *The Economic Implications of a UK Exit from the EU for Northern Ireland*, 2016

22. The Oxford Economics analysis also highlights how the impact varies between sectors. For Northern Ireland, they predict that construction and manufacturing would be the hardest hit, possibly facing a loss of GVA of 4.9% and 4.1% respectively. For sectors such as transport and communications, the loss will be significantly lower at around 1%.[24]

23. It should be reiterated that economic modelling can, at best, provide indicative results and these should not be considered to be accurate forecasts. It is based on assumptions about future scenarios that may or may not unfold. Yet economic modelling is regularly employed in the development of policy and the unknowns faced by economic analysts are the same as those faced by the electorate voting in the referendum. If the UK does leave the EU, the extent of trade deals negotiated or access to the Single Market that the UK has cannot be known at this stage. Perhaps more importantly for those deciding how to vote in the referendum, projected GDP figures say little about how individual households will be affected. Future choices about taxes and spending made by the UK Government and the Northern Ireland Executive can impact on people's lives as much as relatively small changes in the rate of growth. The IoD said that "big economic forecasts are unlikely to convince businesses, nor the public. It will come down to profit margins and cost overheads".[25] Some perspective is also needed: trade will not cease if the UK leaves the EU. Firms will trade if it remains advantageous for them to do so, even if tariffs are applied. Research also suggests that existing trading relationships persist even after the end of trade blocs in which they were established.[26] Moreover, many of those who advocate the UK leaving the EU would argue that the risk of a relatively small reduction in the rate of GDP growth should be weighed against the potential wider constitutional benefits of not being in the EU, together with the freedom for the UK to negotiate its own trade deals across the world, which would then be possible with countries with which the EU does not currently have such deals.

Trade

24. Much has been made of the importance of trade deals. However, as has been pointed out, trade can, and does, continue between countries without trade deals being in place. For example, the EU has no trade deal with China, yet trade between China and the EU continues; and the EU and US are struggling to agree TTIP, yet while negotiations continue so too does the trade between the EU and US. However, what the economic modelling does is highlight the importance of agreeing a trade deal with the EU in the event of a Brexit. If no deal allowing UK firms access to EU markets were successfully agreed between the UK and EU in the event of a vote to leave, and there were no extension to the negotiating period after the two-year period for exit negotiations ended, trade would be conducted under the auspices of the World Trade Organisation's (WTO) Most Favoured Nation (MFN) rules. The average tariff applied by the EU to trade under MFN rules was 5.3% in 2015. Other things being equal, firms exporting into the EU (including the Republic of Ireland) from Northern Ireland and the rest of the UK would either have to increase their prices, reduce their costs or reduce their margins by the same amount in order to maintain their current position in the Single Market.[27] The same, however, would apply to companies in the EU which wanted to export to the UK, because the

24 Oxford Economics, *The Economic Implications of a UK Exit from the EU for Northern Ireland*, 2016, p 8
25 EU0018 (IoD)
26 See A Barret et al, Scoping the Possible Economic Implications of a Brexit on Ireland, ESRI Research Series No. 48, November 2015
27 Details of tariffs are included in WTO, World Tariff Profiles 2015, Geneva WTO, p 6

same tariffs would presumably be applied. However, behind that 5.3% average, tariffs vary very significantly between types of product. Food and agricultural products in particular incur a much higher tariff. Whilst the average for non-agricultural products is 4.2%, for agriculture it is 12.2%. Furthermore, the average for agricultural products also hides significant variation. Some products incur only a modest tariff (primarily those products where the EU has historically had little production and has consequently relied on imports), but for others it is much higher. For dairy products, for instance, it is as high as 42.1% (we address agriculture specifically in Chapter 3). The UK would then have to consider whether to impose equivalent tariffs to level the playing field between EU and UK firms but at the risk of significant domestic price increases on imported goods. On the other hand, fewer imports would create gaps in markets which UK companies could seek to fill. Alternatively, it could allow EU firms to export to the UK on relatively favourable terms in order to allow UK consumers to benefit from lower prices, but at the risk of considerable potential damage to UK firms.

25. Perceptions about the possibility of a deal to allow access to the Single Market were decisive for many we spoke to in persuading them of the case to leave or remain. Those who are confident that a favourable deal that allows UK firms tariff-free access to the Single Market can be swiftly agreed are more confident about a future outside the EU and typically emphasise the economic incentives for doing so. For example, Dr Graham Gudgin, an economist in favour of leaving the EU, emphasised the importance of a trade deal: "I assume it would be possible to make a free trade arrangement. It would be in the interests of other EU Member States to do so, but it is very important that such an arrangement is made".[28] Another economist, Professor Neil Gibson, Director of the Ulster University Economic Policy Centre, agreed:

> In terms of how we trade and who we trade with, I do not see any reason that should change massively, because it is not in anyone's interests to set up any anti-trade agreements or trade tariffs that would make it more difficult. It is not going to help the businesses in either economy. If we were talking only about Northern Ireland, it might be an issue, but the UK is such a huge trading partner for the EU that it is in nobody's interest for that trade agreement not to be relatively free and beneficial for both.[29]

26. Certainly the UK would nominally be in a good position to agree a deal with the EU. The UK has a trade deficit of £68 billion with the EU so there is clearly scope for a mutually beneficial agreement and incentives on both sides for such a deal to be concluded.[30] The incentive to reach agreement should be particularly strong as the UK is one of the largest economies in the world—fifth, by GDP[31]—and the EU has concluded trade agreements with much smaller economies. As Dr Gudgin put it: "It is very hard to see why [the EU] would not have a free trade agreement with the UK if they have a free trade agreement with Canada. Their previous free trade agreement was with South Korea. The EU believes in free trade; I cannot see why it would not believe in free trade with the UK".[32] And as the UK would already be compliant with EU regulations, the lengthy technical wrangling that characterises most trade deals would be unnecessary.

28 Q2
29 Q15
30 ONS Statistical Bulletin, Balance of Payments: Oct to Dec and Annual 2015, 31 March 2016, Tables B and C
31 World Bank, World Development Indicators, 2016
32 Q22 [Dr Graham Gudgin]

27. However, those less confident that a deal can be quickly and easily made on terms favourable to the UK highlight potential problems. They emphasise the political nature of any trade agreement. Whilst there may be an economic incentive for the EU to agree a deal with the UK, there is also a strong incentive for the EU to ensure that the UK is not perceived to be benefiting from leaving. In particular, it is unlikely that a deal will be reached that allows the UK all of the benefits of full access to the Single Market but also allows it to escape any of the associated costs. Andy Bagnall, the CBI's Campaigns Director, thought that "it is hard to see why European negotiations on the other side of the table in the event of a Brexit would offer us a package with none of the costs but all of the advantages".[33] For that reason, it is suggested that full access to the Single Market will almost certainly be contingent on a high degree of regulatory compliance as well as a continued contribution to the EU's budget. This is the case for members of the European Economic Area such as Norway, although Norway does not have to comply with the EU rules in those areas in which it does not have Single Market access, such as agriculture and fisheries.[34]

28. The CBI also noted that, whilst unfavourable trade deals can be agreed quite easily, mutually beneficial ones can take many years.[35] It is worth noting, though, that rules work both ways. Both sides in a trade negotiation can insist on both tariff and non-tariff conditions being in place. It would then be for the two sides to agree which rules form part of the deal. One of the reasons TTIP negotiations are taking so long is in part because the US is insisting on certain rules being in place.

29. We have already noted the mutual importance of the trade relationship between Northern Ireland and the Republic of Ireland. Such is the level of cross-border economic integration it was suggested to us that, in the event of a Brexit, some sort of free trade deal be negotiated with the Republic of Ireland that would allow the status quo of unimpeded commerce, shopping, leisure and commuting across the border to continue. The FSB told us of a local member who wanted to leave the EU who predicted that, after a vote to leave, "[…] an agreement would rapidly be reached on trade with the Republic […] He is looking at it from the point of view of a pragmatic business person and feels that it is in people's interests, so it will happen".[36] Given that the main part of the purpose of undertaking this inquiry was to expose facts surrounding the EU referendum, we should make it clear that, under present rules, this cannot happen if the UK votes to leave. The Republic cannot negotiate a trade deal independently of the other members of the EU. Whilst Dan Mulhall, Ireland's Ambassador to the UK, assured us that the Republic would push for a deal that would disrupt the trade with the UK as little as possible, it "will be determined by the qualified majority voting of the Member States, all of whom have very different interests, preoccupations and relationships with the UK".[37]

30. In Brussels, we were told that there are a range of possible outcomes from any post-Brexit trade negotiations. To date, access to the Single Market has increased in accordance with regulatory compliance and a contribution to the EU budget. High access might be an arrangement along the lines currently enjoyed by Norway which enjoys full market

33 Q559 [Andy Bagnall]

34 The Director General of the British Irish Chamber of Commerce, John McGrane, noted the problematic nature of the Norway model, e.g. an EU levy on food and fish exports from Norway. He suggested that: "this is the kind of scenario that can happen when you begin to move away from the status quo that we know about." Q69

35 Q575 [Andy Bagnall]

36 Q203 [Roger Pollen]

37 Q131

access for goods other than fisheries and agriculture-related products. In return, Norway accepts EU regulations in those areas and makes a substantial contribution to the EU budget. It does not have access to the free trade agreements agreed by the EU. At the other end of the spectrum is the agreement between the EU and Canada. Canada enjoys tariff-free access to the Single Market for most manufactured goods (there are some remaining, but they will be phased out). However, a number of agricultural tariffs remain and there is only limited access for services. Canadian firms exporting to the EU are bound by its regulatory standards, as are all exporters required to comply with the rules of whichever market they wish to serve.

31. Northern Ireland will obviously be covered by UK-level negotiations. But Professor Gibson noted that an arrangement that benefits the UK may not be similarly beneficial for Northern Ireland: "Let us not forget that Northern Ireland is a very small part of the UK and, in going into those trade negotiations, one of the risks would be that its interests […] may not be the UK's. There may be other priorities for the UK: to get the trade agreements that are most beneficial to, say, the financial services industry first. Northern Ireland's ability to be a player in those negotiations, as a very small part of the UK, may have some sectoral ramifications on Northern Ireland that are worth thinking about".[38]

32. It should be noted that, when we discuss "trade" in this section, we are largely referring to exports. Companies that trade with the EU account for over 6.5 million jobs, although clearly not all of those jobs depend on the exports.[39] However, because it is typically larger firms that export, only around 11% of British businesses actually export at all and only a proportion of those export to the EU.[40] However, all business are affected by EU directives, regulations and European Court of Justice judgments. It is therefore important to take into account the views of those people who run businesses that do not export to the EU, yet are affected by UK's membership of it.

33. It should also be noted that, since the UK joined the EU, the unemployment rate has been consistently and stubbornly higher in almost every year of our membership than it was in any year before the UK joined, going back to 1940. This does mean that all factors should be taken into account when discussing this matter, and not just the workings of present, and the prospects for future trade deals.[41]

34. **What sort of post-Brexit trading relationship the UK might negotiate with the EU is the question that needs to be answered before any robust evaluation of the likely impact of leaving the EU can be made. For many people, it is the main question that will determine which way they decide to vote.[42] It became apparent during our visit to Brussels that there is an unwillingness to discuss options for UK-EU relations in the event of a vote to leave ahead of the referendum. This is probably inevitable. The future relationship will be the product of a negotiation process between the UK and the remainder of the EU. Nobody has the authority to state in advance of that negotiation process what the outcome will be, including the extent of Single Market access for UK**

38 Q25
39 HMRC, IDBR overseas trade statistics country data tables 2014, November 2015
40 ONS, Annual Survey: Exporters and Importers, Great Britain 2014, November 2015.
41 Unemployment rose steeply from the mid-1970s. See Office of National Statistics, Time Series: Unemployment, 18 May 2016
42 See Ipsos MORI, Economy and immigration key issues for Britons in the EU referendum, Ipsos MORI Political Monitor, April 2016

firms and the extent of regulatory compliance. However, it means that one of the most important questions in the minds of many remains unanswered and votes will be cast on the perception of risk and the balance of probability.

35. **Clearly negotiations cannot exclusively prioritise the interests of Northern Ireland to the detriment of other parts of the UK. But neither can UK-level interests be allowed to dominate the UK's bargaining position at the expense of Northern Ireland. In the event of a vote to leave the EU, it is imperative that Northern Ireland's economic priorities, such as gaining a good deal for agricultural and manufactured goods, are given due prominence by the UK Government in any subsequent negotiations. However, the likelihood of this cannot be guaranteed.**

Foreign Direct Investment

36. FDI is a significant priority for Northern Ireland because it lacks a critical mass of large homegrown firms and so is particularly reliant on foreign investment to increase capacity and create employment. It is no surprise then that the Northern Ireland Executive has made improving Northern Ireland's attractiveness to foreign investment a major plank of its economic strategy.[43] The decision to reduce corporation tax from 2018 was a recognition that FDI is crucial for Northern Ireland and a response to fears that it was missing out on foreign investment to the Republic of Ireland.

37. The UK is the most successful EU member at attracting FDI (see Figure 2). It holds $1.6 trillion (18%) of the EU's total FDI stock of $8.8 trillion. France and Germany attract a comparable amount of EU-derived FDI—investment originating from other EU members. However, EU-derived FDI accounts for only around half of the UK's total whereas, for the other EU members, it accounts for a much higher proportion.[44] In other words, the UK has a much better record than other EU Member States in attracting FDI from non-EU sources.

38. According to UKTI, inward investment into the UK reached a record level of new projects (1058) in 2014–15, an increase of 29% on 2013–14. There was also an increase in expansion projects to 740, as well as 190 mergers. England dominates as a venue for inward investment, with 796 of these projects going to London, and 905 to the rest of England. Northern Ireland, which has 2.9% of the UK population, received 48 projects—2.4% of the total. However, the average number of jobs created per project in Northern Ireland was the highest at 83, almost double the figure for the rest of the UK, and representing 4.7% of total new jobs (4,007 out of 84,603).[45] Between 2006–7 and 2010–11, 120 foreign firms made greenfield inward investments in Northern Ireland, creating 12,000 jobs.[46] This has been achieved whilst the Republic has had a lower rate of corporation tax.[47]

43 Northern Ireland Executive, Economic Strategy: Priorities for Sustainable Growth and Prosperity, March 2012

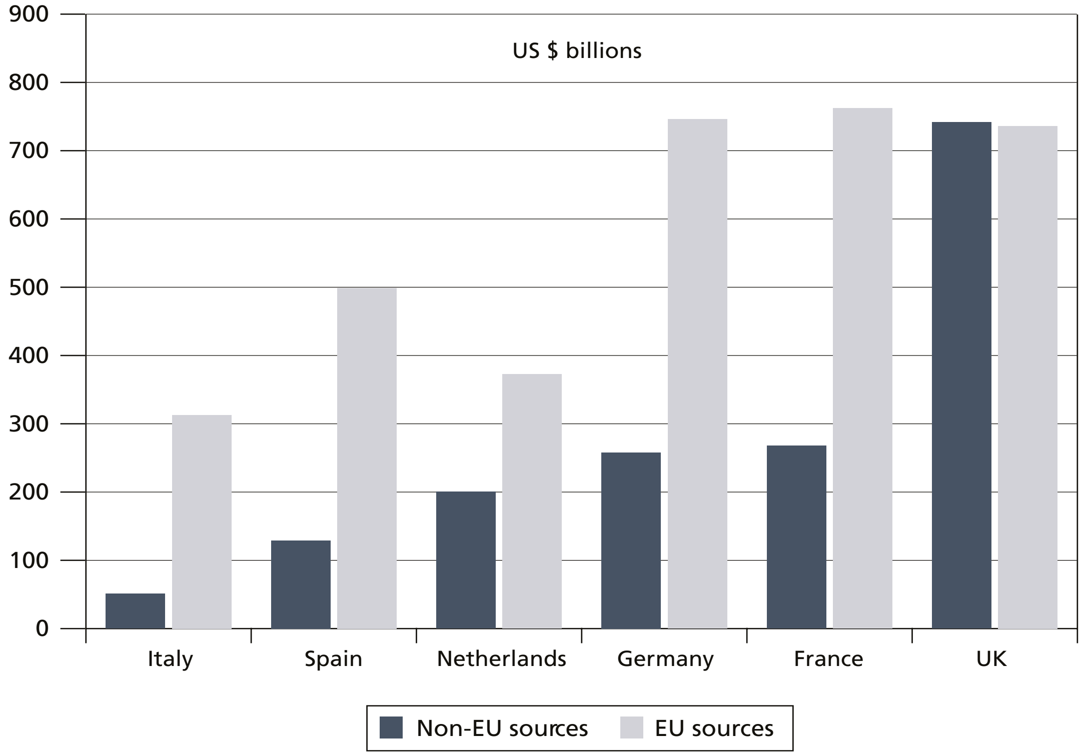
44 HM Treasury, The Long term Impact of EU membership and the Alternatives, Cm 9250, April 2016, para 1.69

45 UKTI, Inward Investment Report 2014/15, June 2015, p.10-11

46 FDI Intelligence, Improving the Quality of Foreign Direct Investment to Northern Ireland, July 2012, para 1.1

47 Corporate tax rates in Northern Ireland have been brought into line with those in the Republic. This will take effect in 2018.

Figure 2: UK FDI 2012



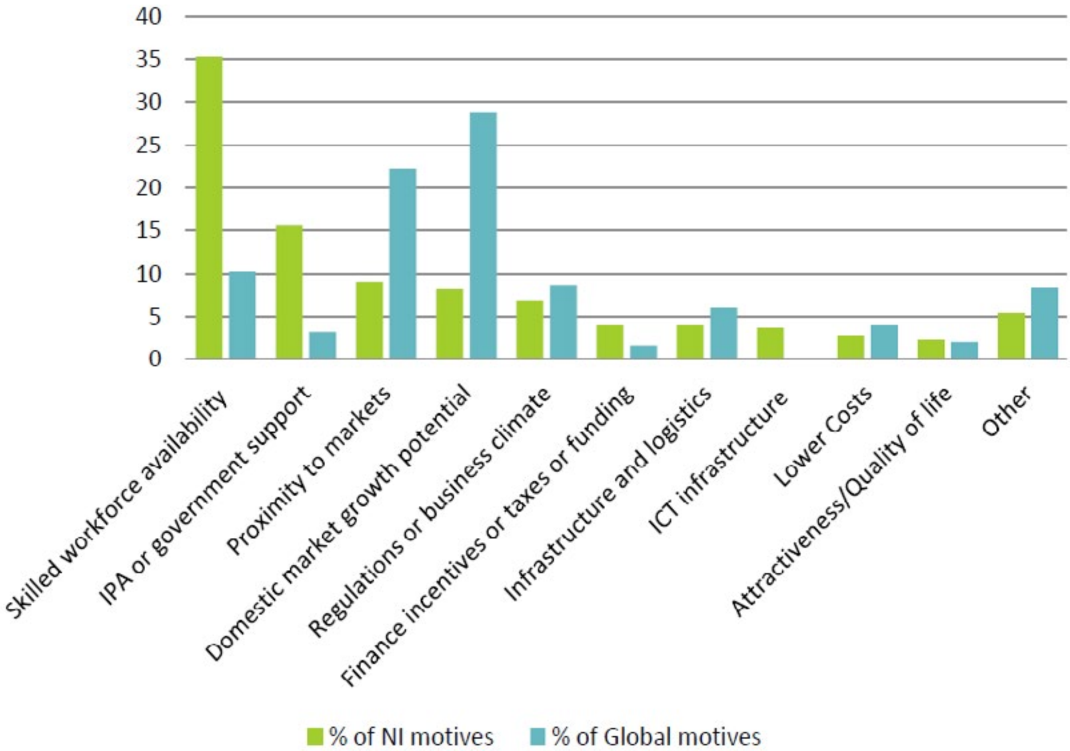
Source: HM Treasury, The Long term Impact of EU membership and the Alternatives, CM250, April 2016, para 1.69

39. FDI Intelligence note that four factors are crucial in determining FDI. Their modelling suggests that corporation tax, labour costs, market size, and the existing concentration of similar foreign firms ('agglomeration') account for over 75% of the variation in FDI between cities and regions.[48] On the basis of these four factors, losing access to the Single Market would deter foreign investment. But agglomeration effects would continue and corporation tax and labour costs would be affected by domestic policies rather than EU membership. Indeed, corporation tax is already being lowered to 18% from 2018. In 2015, research by Ernst and Young did, however, argue that access to the Single Market was a significant factor in attracting FDI to the UK. 72% of the investors they surveyed included it as a factor in the attractiveness of the UK to foreign investors. This could be mitigated with a favourable trade deal. However, the uncertainty over future UK-EU relations in the event of a Brexit would, their research suggested, lead 31% of foreign investors to either freeze or reduce their investment until that picture is clearer.[49]

40. As with trade, accurately predicting the impact of a vote to leave on Northern Ireland's FDI is difficult. FDI Intelligence data contrasts the motivations of foreign firms investing in NI with those investing globally.[50] The availability of a skilled workforce was the most significant factor in attracting investment in Northern Ireland by a considerable margin, followed by the availability of government support. These factors were both considerably less important globally, where proximity to markets and potential for market growth were the most common. The data is summarised in Figure 3 below.

48 FDI Intelligence, Improving the Quality of Foreign Direct Investment to Northern Ireland, July 2012, para 1.4
49 Ernst and Young, UK Attractiveness Survey 2015, 2015, p 4
50 From Daniel Donnelly, *A Review of the Literature on Determinants of Foreign Direct Investment NIA*, Briefing Paper 10/15, November 2014

Figure 3: Factors attracting FDI to Northern Ireland



41. Anything that detrimentally affects the flow of FDI into Northern Ireland is clearly a concern. It would risk damaging trade, productivity and employment. What is less clear is the extent to which leaving the EU would do so. Access to markets is a significant factor in determining the attractiveness of a location for FDI and a Brexit would carry that risk. However, a free trade agreement of some sort would go a long way towards maintaining that market access. However, a Brexit would also increase the scope of the UK Government and the Northern Ireland Executive to introduce policies that would make Northern Ireland attractive in other respects. For example, EU rules prevent the UK Government from setting a lower rate of Corporation Tax in Northern Ireland. The responsibility has had to be devolved, which has taken time to achieve, whereas if the rate had been lowered, say, five years ago, much more FDI could potentially have been attracted to Northern Ireland by now. Furthermore, EU rules prevent the UK government from lowering the rate of VAT for tourism in Northern Ireland, which is another tax that compares unfavourably with the rate in the Republic of Ireland, where tourism appears to have been boosted by the lowering of their rate of VAT.

42. Here, the contrast between the factors which attract foreign firms to invest in Northern Ireland and global trends is notable. The two most important factors for investors were the availability of a skilled workforce and the availability of government support. In addition to a free trade deal allowing a high level of market access, the risk of a Brexit to Northern Ireland's FDI can be mitigated by ensuring that investment in education, skills and training and a supportive public policy environment is maintained.

EU migration to Northern Ireland

43. Migration has been one of the most prominent aspects of the national debate on EU membership.[51] However, migration to Northern Ireland has not been on the scale seen in London and the South East or some of the large cities in the rest of the UK.[52]

44. The employers' organisations we spoke to generally welcomed the ability to recruit from outside Northern Ireland. Acknowledging the sensitivities surrounding mass migration, the CBI told us that many businesses in Northern Ireland relied on 'pan-European skills transfer' in sectors such as life sciences and biotechnology and other high technology sectors.[53] The IoD reiterated this point: 43.7% of respondents to their survey said that they employed EU nationals. However, these were not necessarily in the high technology sectors emphasised by the CBI. The IoD found that the skills that migrants were employed for was much broader, and included nursing, ICT, technical, low and semi-skilled, engineering, languages, managerial, shopfloor, and hospitality.[54]

45. Clearly then, employers in Northern Ireland have found the ability to recruit from beyond the local pool of labour useful. Migration may have been a means to supplement Northern Ireland's limited skills base with high technology skills from elsewhere. However, it seems that it is not confined to scarce skills in high-tech industries but is also being used in less high-skill sectors.

46. The analysis by Oxford Economics suggested that free movement of people is less of an issue, at least in economic terms, for Northern Ireland than it is for the UK as a whole. Sectors that have benefited from migration, such as financial and professional services, are rather less significant for the economy of Northern Ireland than they are for the UK as a whole.[55]

The views of business

47. Most of the main Northern Irish business organisations have not been prepared to back the case to remain or to leave the EU. The Northern Irish branches of the Institute of Directors and the Federation of Small Businesses and the Northern Ireland Chambers of Commerce have all reiterated their national organisations' position and declined to advocate either remaining or leaving the EU.[56] Only the Northern Ireland CBI has clearly stated that it favours remaining, reiterating the CBI's national position.[57] Sectoral trade associations such as the Northern Ireland Food and Drink Association and the Northern Ireland Independent Retail Trade Association have been more willing to advocate publicly remaining in the EU,[58] as has the Ulster Farmers' Union (see Chapter 3).

51 Recent opinion poll data suggests immigration was second to the economy in determining respondent's vote. See Ipsos MORI, Economy and immigration key issues for Britons in the EU referendum, Ipsos MORI Political Monitor, April 2016

52 The Parliamentary Under Secretary of State, Mr Ben Wallace MP, noted: "It is far more complex than simply saying that the EU is the cause of all the immigration problems." Q818

53 Q555 [Judith Totten]

54 EUN0018

55 Oxford Economics, *The Economic implications of a UK Exit from the EU for Northern Ireland*, February 2016, p 6

56 The British Chambers of Commerce continues to maintain formal neutrality, in spite of the controversy surrounding the suspension and subsequent resignation of its Director General over his Eurosceptic views.

57 The UK CBI has received EU money. See Qq592–593

58 CBI Northern Ireland, Leading business bodies in Northern Ireland highlight benefits of EU membership for Northern Ireland, 14 April 2016

48. The unwillingness of the main business organisations unambiguously to advocate a particular position reflects a lack of consensus amongst their members on the issue. However, there seems to be a prevailing mood to remain in the EU amongst Northern Ireland's businesses (though, given the relatively small number of responses from Northern Ireland in the surveys, caution needs to be exercised in drawing conclusions about the views of business).[59] Although they have not taken a position, the Chambers of Commerce and IoD—the two business organisations that typically represent larger firms in Northern Ireland and who have gathered NI-specific survey results—both reported that a significant majority of respondents preferred to remain in the EU. The IoD reported 74.4% wanted to remain and 17.5% to leave. Uncertainty about the future trading relationship with the EU, the border with the Republic and the impact on FDI were all cited as reasons for remaining, whilst concerns about the future trajectory of the EU and freedom from constraints and regulation were cited as reasons for voting to leave.[60] The Northern Ireland Chamber of Commerce reported stronger support—81%—for remaining in the EU and 11% for leaving.[61] They reported members' concerns that Northern Ireland would be isolated outside the EU, that the border with the Republic would be affected, trade with the EU would become prohibitively costly, and the loss of EU funds as reasons for remaining in the EU. The potential fiscal windfall from retaining money that currently goes to the EU was cited as a reason to leave.[62]

49. However, support for retaining EU membership is certainly not universal amongst businesses. Discussing the views of his members, Roger Pollen of the FSB emphasised that, in spite of a popular tendency to assume that business is uniformly pro-Europe, it is not a "single cohesive block"; the small businesses his organisation represents hold a wide range of opinion and were certainly not united in the remain camp.[63] The FSB found that 54.2% of respondents favoured remaining in the EU compared with 32.3% who wanted to leave.[64]

59 The IOD's received responses from 214 of its members in Northern Ireland, the FSB 96. IoD Northern Ireland EU referendum Survey, March 2016; Verve Partners, A Study of FSB Members' Views on UK Membership of the European Union, September 2015.

60 IoD, IoD Northern Ireland EU referendum Survey, March 2016

61 The BCC has received money from the UK Government which supports remaining in the EU.

62 Northern Ireland Chamber of Commerce, NI Chamber: Renegotiated EU deal unlikely to change voting intentions of business leaders, 17 February 2016

63 Q166

64 Verve Partners, A Study of FSB Members' Views on UK Membership of the European Union, September 2015. The FSB emphasise that, particularly for small businesses, the personal and commercial views of Europe can become blurred and that views of the impact on business will be coloured by respondents' personal views.

3 Agriculture

50. Agriculture is affected by many of the same issues as the economy more generally. The impact of a vote to leave on exports is a concern for farmers just as it would be for any other business, for instance. However, leaving the EU would also see an end to the current system of support for farmers through the Common Agricultural Policy (CAP), though this might be an opportunity to introduce an alternative scheme, which perhaps could be better targeted. Such is the significance of the EU to agriculture in Northern Ireland that we have addressed it specifically.

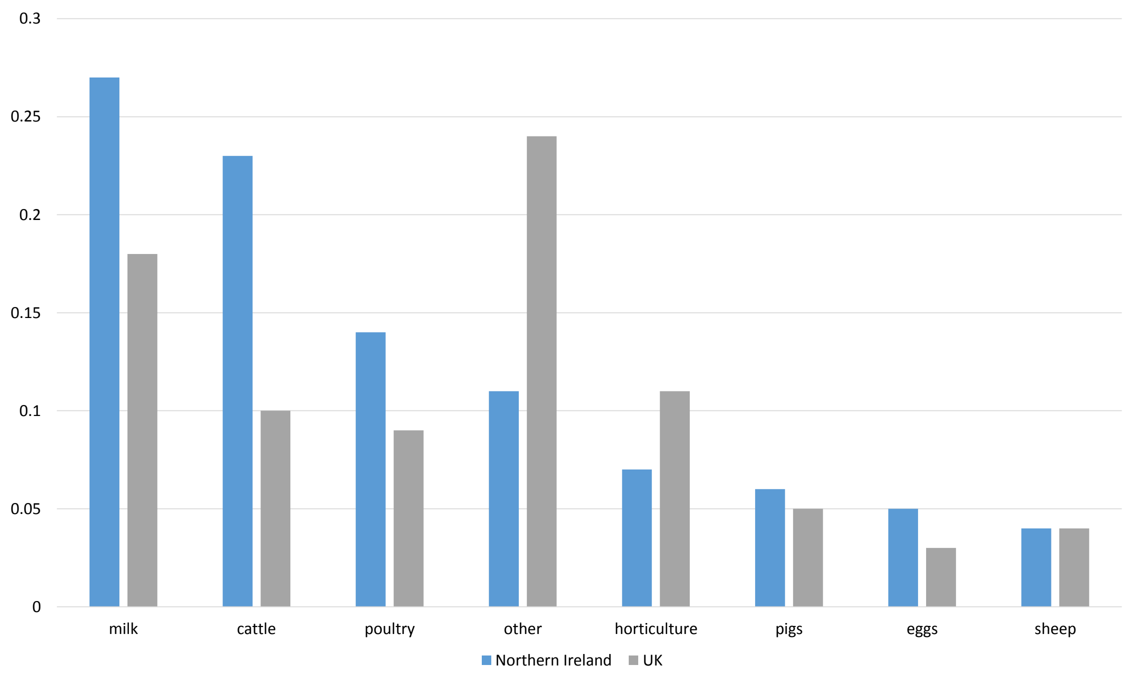
Agriculture in Northern Ireland

51. Agriculture represents a significant sector for Northern Ireland's economy. There are 25,000 farms in Northern Ireland and 28,500 people employed in the farming sector. Almost as many are employed in the wider agri-food sector, which includes processing and packaging and is one of Northern Ireland's main industrial sectors, and agricultural supplies.[65] Agri-food is, unsurprisingly, one of the sectors targeted for growth in the Northern Ireland Executive's Economic Strategy.[66] The Executive established an industry-led Agri-food Strategy Board in 2012, which published its strategic plan for the sector in April 2013.[67]

52. The composition of the Northern Irish agricultural sector is quite different from the UK as a whole. Figure 4 shows the agricultural output of Northern Ireland and the UK respectively. It highlights how the sector in Northern Ireland is heavily concentrated on livestock: dairy and beef cattle alone account for 50% of total agricultural output but only 28% in the UK. The UK, in contrast, has a much higher output of crops and the sector as a whole is more diverse.

65 See DAERA, Statistical Review of Northern Ireland Agriculture 2015, p 19-21
66 NI Executive, Economic Strategy, March 2012
67 Agri-Food Strategy Board, Going For Growth, May 2013

Figure 4: UK and NI agricultural gross output by sector 2015



Source: DAERA

53. Table 4 gives the value of Northern Ireland's sales of its main agricultural products by destination. The data shows that the largest proportion of agricultural sales are made within the UK: sales within Northern Ireland and the rest of the UK comprise 70% of the total.[68] Exports to the European Union account for 27.2% of the total.[69] Of that EU trade, the Republic of Ireland represents a significant market. It accounts for 57.4% of sales to the EU and 15.6% of Northern Ireland's total sales. The Republic is also an important market for agri-food products such as baked goods and soft drinks. The small proportion of sales to the rest of the world is striking. Only 3% of total sales are to countries outside the EU.

Table 4: Northern Ireland Agrifood Sales by Destination 2012

Destination	TOTAL NI SALES	Animal by-products	Milk/Milk products	Beef/Sheep meat	Pig meat	Poultry
NI	£1205.8m	£2.7m	£296.3m	£152.2m	£124.3m	£143.4m
GB	£1940.5m	NA	£222.3m	£768.3m	£120.2m	No data
RoI	£704.7m	£1.8m	£155.5m	£80.1m	£55.5m	£96.2m
Rest EU	£523.9m	No data	£259.2m	£178.6m	No data	No data
Rest World	£135.1m	No data	£66.6m	£19.9m	No data	No data
TOTAL	£4510.0m	£40.5m	£999.9m	£1199.1m	£316.0m	£764.7m

Source: DAERA

68 The sum of sales to Northern Ireland and the rest of the UK.

69 The sum of sales to the Republic of Ireland and the rest of the EU.

54. There is clear variation between sectors. In their evidence to us, the Ulster Farmers' Union (UFU) stressed the importance of the EU as a market for beef and dairy in particular and this is confirmed by the figures.[70] For milk and dairy products, for example, the UK is still the largest market but accounts for just over half of total sales, with the EU accounting for over 40%. Again, the volume of exports beyond the EU is low.

55. As we noted in the previous chapter, if no trade deal with the EU were agreed following a vote to leave the EU, trade would be conducted under the terms established by the WTO's Most Favoured Nation (MFN) criteria. This could have potentially far-reaching consequences for Northern Ireland's farmers. The EU, like many trading blocs, has traditionally protected agriculture from cheap imports and this is evident in the MFN tariff regime. Tariffs are typically higher for agricultural products than manufactured products. The EU's average MFN tariff is 5.3%. However, for agricultural products, the average is much higher at 12.2%. But there is considerable variation within that 12.2% average. Of particular relevance to Northern Ireland are the MFN tariffs on meat and dairy which are amongst the highest tariffs the EU imposes. For meat, the current MFN tariff is 17.7% and, for dairy products, 42.1%.[71] It should be noted that these are averages and are much higher for some dairy products.[72]

56. There is a global oversupply of milk which is reflected in falling prices that farmers receive. In Northern Ireland, average farm gate milk prices fell by 28% over 2015.[73] Some of the oversupply is generated within the EU. Northern Ireland itself saw milk production increase by 3% to a record level in the same period.[74] The concern is that, in this context, any post-Brexit trade negotiations would encounter resistance from remaining EU members keen to restrict the supply of dairy from a major supplier into the EU. But the inclusion of dairy produce by HM Government in any post-Brexit trade agreement would be imperative for Northern Ireland's interests. It is also worth noting that Russia has instituted a ban on agricultural imports originating from the EU. This ban came in response to the imposition of EU sanctions on Russia, supported by the UK, following that country's actions in Ukraine, and has impacted the global price for dairy in a way that has been unhelpful to Northern Ireland's farmers.

57. **Tariffs on the scale of those currently imposed by the EU under the WTO's Most-Favoured Nation conditions would be hugely damaging to Northern Ireland farmers. Trade within the UK would be enhanced if substantial tariffs on EU imports into GB were put in place, but exporters in sectors such as dairy would be badly affected, especially in the context of a continued global oversupply. Agreeing a free trade deal that includes agriculture would need to be a priority for the UK Government in the event of a Brexit. That deal would need to recognise that the profile of agriculture in Northern Ireland is different from the UK as a whole and should include tariff-free exports of dairy and beef.**

70 Q682 [Wesley Aston]

71 WTO, World Trade Tariffs, 2015, p 75

72 Because trade tariffs are excepionally complex, with different rates applied to similar products (for example, to milk with different fat content or two different cuts of beef) or the form it is exported in, we have just included the average tariffs. A full breakdown is available from https://www.gov.uk/trade-tariff/sections

73 DAERA, Statistical Review of Northern Ireland Agriculture, 2015, p 23

74 DAERA, Northern Ireland agricultural incomes in 2015, Statistical Press Release, 28 January 2016

The Common Agricultural Policy

58. The Common Agricultural Policy (CAP) is the largest single item of EU expenditure, constituting around 40% of the total budget. It comprises two elements or 'pillars'. Pillar One, the Basic Payment Scheme (BPS), gives support directly to farmers and accounts for the bulk of the CAP. Pillar Two, the Rural Development Programme, supports rural economies more generally.

59. The steady move of EU agricultural support away from coupled support—support linked to production—to provision of a basic income for farmers, contingent on fulfilling certain environmental roles, has continued. Under the latest round, the old Single Farm Payment (SFP) scheme has been replaced with the Basic Payment Scheme. Under the BPS, 30% of the payment is dependent on compliance with various 'greening measures'.[75]

60. The CAP allocations for the current 2014–20 round were announced in late 2013. There has been a reduction in the UK CAP allocation in line with a reduction in the overall CAP budget. The Pillar One allocation has been reduced by 12.6% and Pillar Two by 5.5%.[76] Within the UK, that reduction has been distributed evenly, so the proportion of the CAP budget going to each part of the UK has remained the same.

Table 5: UK CAP Allocations

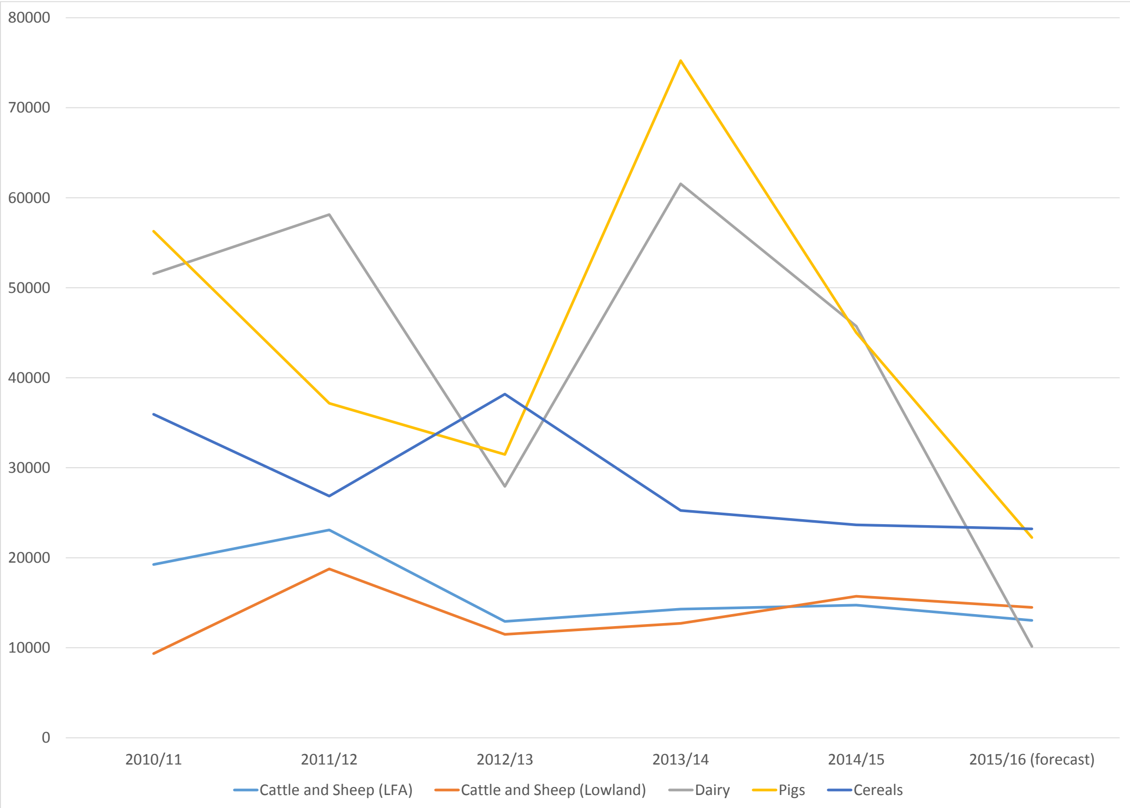
	Pillar One	Share	Pillar Two	Share	TOTAL
England	€16,421m	65.5%	€1,520m	58.9%	€17,941m
N.Ireland	€2,299m	9.2%	€227m	8.8%	€2,526m
Scotland	€4,096m	16.3%	€478m	18.5%	€4,574m
Wales	€2,245m	8.96%	€355m	13.7%	€2,600m
TOT	€25.1bn		€2.6bn		€27.7bn

61. The UFU is not campaigning to remain in the EU but its official position is that "… in the absence of any compelling reason for agriculture to leave the European Union, we feel that it is better for the minute, given the circumstances and the knowledge we have, to stay".[77] They did, however, acknowledge there were divisions within their membership: UFU President, Ian Marshall, told us that "We see divides within sectors of our industry. We see splits within families within our membership".[78]

62. Along with access to markets, the future of agricultural support is the other key issue that would most directly affect Northern Irish farmers. Currently, support to farmers primarily comes through the Pillar One of the CAP. Current economic conditions have put the future of farm support high in the minds of Northern Ireland's farmers. Data from the Northern Ireland Department of Agriculture, Environment and Rural Affairs (DAERA) suggest that total income from farming in Northern Ireland fell by an astonishing 41% in 2015.[79] The figure is even higher for some types of farm, with dairy and pig farming particularly badly affected.

75 *Basic Payment Scheme Debate Pack*, CDP2016/0026, House of Commons Library, January 2016, p.10-11
76 "CAP Allocations Announced", GOV.UK Press Release, 8 November 2013
77 Q675 [Wesley Aston]
78 Q722
79 DAERA, Northern Ireland agricultural incomes in 2015 Statistical Press Release, 28 January 2016. We were told that dairy prices had fallen so dramatically due to a combination of high production, falling demand, particularly in Asia, and the EU embargo on exports to Russia.

Figure 5: Average farm business income by type of farm (£ per farm) 2010–11 - 2015–16 (forecast) for selected sectors



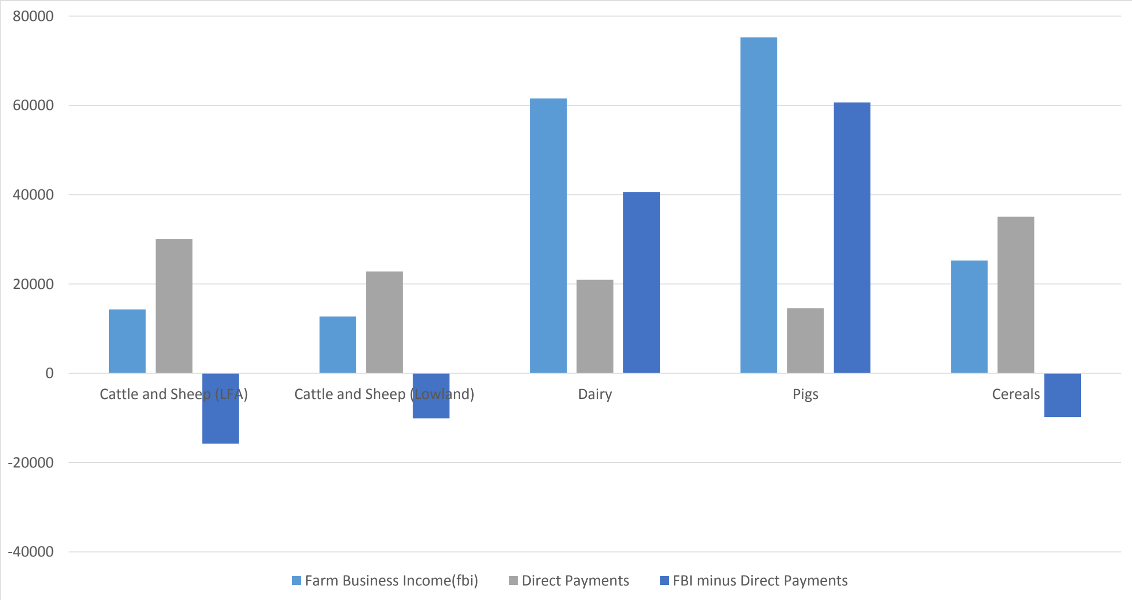
Source: DAERA

63. This reliance on subsidy from the EU was also noted by Dr Gudgin: "… virtually the whole of farm income in Northern Ireland, by which I mean the income of the farmers and the businesses, not the labour costs, is really covered by the CAP. If that subsidy was not there, the farming industry in Northern Ireland would not make any money at all. It is a marginal producer in this sense and that is something that nobody in Northern Ireland has been very keen to publicise".[80]

64. Figure 6 gives the breakdown of average farm income by source for the main industry sub-sectors. It clearly shows the importance of the direct payments in keeping many farms afloat. Cattle and sheep and cereal producers are particularly dependent. Without it, or an equivalent replacement, many would not survive.

80 Q18

Figure 6: Average farm business incomes including and excluding direct payments in 2013/14 (£ per farm)



Source: DAERA

65. It should also be noted that because incomes for dairy and pig farmers have fallen dramatically in the last year (see Figure 6 above) they will be more reliant on CAP support now than this 2013–14 data suggests.

66. Under such circumstances it is perhaps unsurprising that farmers in Northern Ireland are concerned about the future of support. UK governments have supported farmers before they were eligible for CAP and could do so again. In an interview with the News Letter earlier this year, the Secretary of State for Northern Ireland, Theresa Villiers, who favours leaving the EU, sought to assuage these sorts of fears. She said that some form of support for Northern Irish farmers will certainly continue in the event of a Brexit. She emphasised that there would be extra money available for support if the UK were no longer making an EU budget contribution: "I don't think one would want to say that it continues in exactly the same form, but arguably we'll have cash to spare, so it's not impossible that we could have a more generous system".[81] Yet, the Government has not signalled any commitment to replace such funds to farmers. The Parliamentary Under Secretary of State for Northern Ireland, Mr Ben Wallace MP told us the Government "cannot guarantee [that farmers in Northern Ireland] will get the same subsidy that they get currently in direct payments in the event of Brexit".[82]

67. The UFU's witnesses were not convinced by such reassurances. UFU President Ian Marshall said "The concern is that historically there has not been a track record of supporting agriculture, irrespective of which party was in control. In the absence of guarantees [of continued support] we have huge concerns about what this could potentially look like".[83] Chief Executive Wesley Aston went on to say "… we don't expect the UK to provide any

81 Sam McBride, 'After Brexit, Farm Subsidies Could Be Even Bigger: Villiers',The Newsletter, 5 March 2016
82 Q842
83 Q681

money to any parts of the UK farming industry".[84] They noted that British governments had not used the latitude available to them within the existing rules to provide support to farmers to the extent that other EU members have.[85]

68. In the event of a vote to leave the EU, the nature of continued support matters to Northern Irish farmers. They were concerned that any support programme must support farmers directly; Pillar One funding would need to be replaced with an equivalent mechanism in the event of a Brexit. However, successive UK governments have argued for significant further reductions in Pillar One support, which has been regarded as market distorting. With agriculture a devolved competency, the Northern Ireland Executive would have the ability to match existing Pillar One support but it would run counter to the policy pursued by UK governments, and be limited by the level of funding made available to the Department of Agriculture, Environment and Rural Affairs.[86] It is clear then that it is the certainty that the CAP provides that has led the UFU to favour remaining in the EU even though farming income in Northern Ireland has fallen dramatically.

69. **There has been a precipitous fall in Northern Irish farmers' income from farming, which means the future of agricultural support is a particular concern for the sector. Without support, much of Northern Ireland's agriculture would be unviable. In the event of a vote to leave the EU, a new system of agricultural support should be high on the agenda of both the UK Government and the Northern Ireland Executive.**

84 Q681
85 Q765 [Wesley Aston]
86 CAP Reform 2014–2020: Reaching Agreement Standard Note SN06693, House of Commons Library, 14 August 2013, p 8

4 The Border and Cross-Border Issues

The border in the event of a Brexit

70. Northern Ireland is the only part of the UK to have a land border with another EU member.[87] Insofar as Northern Ireland does have a different relationship with the EU from the rest of the UK, it is this that is the cause. Previous chapters have discussed the relationship between Northern Ireland and the Republic in terms of commerce. Clearly, the two parts of the island of Ireland are key trading partners for each other and supply chains often span the border.

71. The nature of the border has contributed to this. Whilst it is not true to say that the border is completely open—there is number plate-monitoring technology in place—it is the case that individuals can travel across the border by land unimpeded. And commerce can take place across the border without duties being levied, customs checks, or other bureaucracy, even though different currencies are already used. The future of the border in the event of a Brexit was given as one of the main concerns by some witnesses.[88] Those from south of the border were also unhappy at the prospect that this free movement between Northern Ireland and the Republic might become more difficult and that a Brexit might lead to a 'hardening' of the existing 'soft' border. Dan Mulhall, the Republic's Ambassador in London, said that "… we are obviously concerned about the future of the border. Our open border is the biggest symbol, perhaps, of the normality and development of north-south relations. The fact is that no one can be 100% certain about what the impact of the border will be if the UK decides to exit the EU".[89]

72. There have certainly been suggestions that the border might well be hardened in the event of a vote to leave. Taoiseach, Enda Kenny, has said that Ireland could reinstate border controls in the event of a Brexit.[90] Significantly, the Republic of Ireland is not a Schengen signatory. Furthermore, the UK and the Republic have maintained a joint Common Travel Area (CTA) since the 1920s. With a CTA which predates either nation's membership of the EU and no complications arising from Schengen, some would argue that there is no compelling practical need for the border to change. There is a general consensus that the current arrangements work well and there is no desire to change them.

73. However, in the event of a Brexit, the border between Northern Ireland and the Republic would become an external border for the EU and so would principally be a matter of negotiation between the UK and EU. The scope of any post-Brexit trade deal would have an influence on the nature of the border. In the event that it did not extend to mutual tariff-free access to each others' markets, the border might need to include customs checks. Furthermore, if any post-Brexit agreement between the UK and EU did not extend to the free movement of labour with the rest of the EU, there are fears that the border with the Republic would become a "back door" by which UK border controls could be evaded (though measures already in place to restrict the ability of what would be illegal EU migrants to live and work in the UK would reduce its attractiveness).

87 Gibraltar is not part of the UK, but it is treated as though it is in respect of the UK's membership of the EU.
88 For example, Q2 [Professor Gibson], Q561 [Judith Totten], Q734 [Ian Marshall]
89 Q121
90 'Kenny: Brexit Could Bring Back Irish Border Controls', www.politico.eu, 8 January 2016

74. In spite of there being no desire on either side of the border to change the current arrangements, we were told that, in the event of a Brexit, the future of the CTA would be put into question. The European Union's Brexit Taskforce told us that as the CTA is an agreement between two EU members and protected by EU Protocol (it is currently included in an annex to the Lisbon Treaty), it would no longer apply if the UK was outside the EU. Whilst the CTA predates British and Irish membership of the EU, it is not clear that its status in international law is sufficiently robust for it to bind EU members beyond their mutual obligations to each other in the event of a Brexit. **Outside the EU, the UK would be free to negotiate a special status for Irish citizens: Professor Dagmar Schiek, Jean Monnet Chair of EU Law and Policy at Queens University Belfast, told us that there is some latitude within the EU's rules to allow some bilateral agreement between the Republic of Ireland and the UK over the border. However, she emphasised that it would require the remaining EU members to agree to this: "Under EU law, any future relation between the Republic of Ireland and the UK would be subject to agreement not only with the Republic of Ireland, but with the whole of the EU".**[91]

75. In the event of a Brexit, if there is no agreement on free movement between the UK and EU as part of the exit negotiations, and a harder border is required, three scenarios are possible: the border between the Republic and Northern Ireland could be hardened; the UK could instead harden the border between the island of Ireland and Great Britain; or the Republic could opt to enforce the same approach to border controls as the UK.

76. The most immediate impact of imposing a hard border between Northern Ireland and the Republic of Ireland would be felt by those who regularly cross between the two for work, leisure or study. Data on the numbers of people who live on one side of the border but work on the other is limited. A 2001 study estimated that there were 18,000 daily cross-border commuters (9,000 travelling in each direction).[92] John McGrane told us the figure could be as high as 30,000.[93]

77. It was suggested to us that it would be impractical to try to control every border crossing between Northern Ireland and the Republic.[94] There are nearly 300 formal crossing points and many informal ones. Assistant Chief Constable Will Kerr, PSNI, told us "We have to be pragmatic about how effectively we could police a border if we want to impose all these controls again".[95]

78. An alternative solution might be to strengthen the border between the island of Ireland and the British mainland. There are fewer crossing points to enforce and it would be less disruptive as there are already checks in place. Some airlines flying between Northern Ireland and the rest of the UK already subject passengers to identity checks and these could be made more robust and extended to relevant ports such as Holyhead and Stranraer with relative ease. The UUP told us they had been told by the Government that it did not envisage policing the border with the Republic and that the Government's preferred solution would be to put in place a more robust system of checks at relevant ports and airports on the mainland. Mike Nesbitt told us: "The Prime Minister indicated

91 EUN0015
92 North South Ministerial Council, Study of Obstacles to Mobility (2001), p.36
93 Q67
94 Q67 [John McGrane]
95 Q530 [Will Kerr]

pretty clearly that it would not be on the physical separation of Northern Ireland from the Republic but it is more likely to be at Stranraer, Cairnryan, Heathrow, Gatwick, our ports and our airports."[96]

79. Sharing a border policy with the Republic of Ireland would negate the need to impose a hard border between Northern Ireland and the South or with the mainland. There is already a considerable amount of shared policy in this area. In addition to the CTA, since 2014, citizens of China and India can enter the UK and Republic of Ireland with a single visa.[97] However, the Republic's policy is constrained by its EU membership.

80. **There must be doubts about the extent to which, in the event of a Brexit, the border between Northern Ireland and the Republic could be effectively policed and the disruption to those who cross the border for work or study would be considerable. However, imposing security checks for those travelling between parts of the UK would also be highly undesirable. In the event of a Brexit, an arrangement that maintains a soft land border between Northern Ireland and the Republic but which does not see restrictions imposed on travel within the UK would need to be a priority.**

The Belfast/Good Friday Agreement

81. Some of the evidence we received emphasised the potential effects of leaving the EU on the peace process in general and, more specifically, the Belfast/Good Friday Agreement. Much of this attempted to intertwine membership of the EU, the Belfast/Good Friday Agreement and human rights and, in particular, membership of the European Convention of Human Rights. For instance, law academic Dr Sylvia de Mars and colleagues from Durham and Newcastle Universities claimed in their written submission that "[t]he EU, the European Convention [on Human Rights] and the Good Friday Agreement are essentially interdependent in their application to NI".[98] The Republic of Ireland's Foreign Minister, Charlie Flanagan, has similarly emphasised that "the shared emphasis on human rights is what makes the peace process credible".[99] However, although related, the Belfast/Good Friday Agreement and its associated institutions, human rights, and the Peace Process more generally are distinct and the impact of a Brexit on each should be considered in turn.

82. The Belfast/Good Friday Agreement itself makes reference to shared EU membership. It states that the governments of the UK and Republic wish "to develop still further the unique relationship between their peoples and the close co-operation between their countries as friendly neighbours and as partners in the European Union".[100] Both the Agreement and the Northern Ireland Act 1998 state the legislative scope of the Northern Ireland Assembly and Executive is limited to that which is compliant with European law (and to the European Convention on Human Rights).[101] In the event of a Brexit, the EU provisions would clearly no longer apply, although the ECHR would continue to apply. However, the power-sharing elements that comprise the core of the Agreement would not be affected.

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96 Q298 [Mike Nesbitt]

97 Home Office The Home Secretary today signed a Memorandum of Understanding with the Republic of Ireland to strengthen the Common Travel Area Press Notice 6 October 2014

98 EUN0006 2.b, p.3

99 'Ireland Dismayed by UK Plan to Repeal Human Rights Act', Financial Times, 17 May 2015

100 Northern Ireland Office, The Belfast Agreement, p 32

101 Northern Ireland Office, The Belfast Agreement, p 7; Northern Ireland Act 1998, s6 and s24

83. The Belfast/Good Friday Agreement also states that the North-South Ministerial Council (NSMC) must "consider the European Union dimension of relevant matters, including the implementation of EU policies and programmes and proposals under consideration in the EU framework".[102] It was suggested that leaving the EU might make the operation of the NSMC more complicated.[103] The NSMC was established to foster cooperation between the Northern Ireland Executive and the Government of the Republic on all-Ireland and cross-border issues. This is made easier because the policy autonomy of each is constrained by the need to comply with EU law. This would no longer be the case if the UK were to leave the EU. The impact would be dependent on the extent to which UK Governments used the policy autonomy that would nominally be afforded them outside the EU. If UK policy diverged significantly from the EU's in key areas, it could make cross-border collaboration more difficult to achieve. However, it should be noted that the EU has a limited role in several areas that the NSMC currently focuses upon. For example, neither education nor tourism need be significantly affected by a Brexit and much of the work of the six "implementation bodies" could continue even if the UK were to leave the EU.[104]

84. Whilst the Belfast/Good Friday Agreement makes limited references to the EU, there are numerous references to the implementation of the European Convention on Human Rights (ECHR) and its incorporation into UK law. However, the ECHR is institutionally distinct from EU membership and many ECHR signatories are not EU members. Leaving the EU would not, in itself, lead to the UK withdrawing from the ECHR.

85. More generally, whilst some witnesses noted the support the EU had provided to the peace process,[105] nobody suggested its success was dependent on continued EU membership. Although both emphasised the benefits of continued UK membership of the EU, neither the Minister nor the Irish Ambassador considered the Peace Process to be at risk if the UK left the EU. Ben Wallace told us: "I just do not think it would be put at risk if we left the EU". Clarifying comments previously made by Taoiseach, the Ambassador told us: "He was not saying that there was a direct threat to the peace process".[106] Indeed, arguably, the USA has played a more significant role in supporting the peace process. The EU has provided funds for useful initiatives through the PEACE Programme but this was in support of a peace process that was already underway. Moreover, the programme is unlikely to continue beyond the current funding round.[107]

86. **The peace process has ultimately been successful because of the commitment of successive UK and Irish governments and the willingness of politicians and the communities they represent to put aside past differences sufficiently to allow Northern Ireland to be governed peacefully. It is clear that the relationships that both the Northern Ireland Executive and the UK Government have with the Irish Government continue to be very strong, and we expect that would continue to be the case regardless of the outcome of the referendum.**

102 Northern Ireland Office, The Belfast Agreement, p 16
103 EUN0003, para 4.3
104 Q135 [Dan Mulhall]. The NSMC established implementation bodies for food safety, the promotion and development of Lough Foyle and Carlingford Lough, inland waterways, language, trade and business development, and special EU programmes.
105 For example, Q121 [Dan Mulhall]
106 Q820 [Ben Wallace]; Q124 [Dan Mulhall]
107 Q43 [Dr Lee MacGowan)]

Policing and Security

87. The Police Service of Northern Ireland (PSNI) emphasised to us the excellent working relationship it enjoyed with An Garda Siochana ("the Garda"). It was stressed that this relationship was at every level. The PSNI Chief Constable told us: "The senior teams […] down to, literally, officers and police stations either side of the border running rural crime operations or road safety operations together. We are in a pretty good place around that level of co-operation and I think the results are speaking for themselves as well".[108]

88. Cooperation between the PSNI and the Garda is underpinned by the Intergovernmental Agreement on Criminal Justice matters, which provides for regular formal contact. There are a number of examples of successful formal cooperation. The Cross Border Policing Strategy, which aims to disrupt criminal activity across the whole island, was agreed in 2010 and is regularly updated. It covers cooperation in the range of policing activities and includes sections dealing with operations, cross-border investigations, intelligence-sharing and security, information and communications technology, training, human resources, and emergency planning.

89. Under the Intergovernmental Agreement on Police Cooperation (April 2002), there are a regular series of cross-border staff secondments between the two forces in both back office, general policing and specialist policing areas. The biennial Cross-Border Organised Crime Seminar brings together police and other security and enforcement bodies from both sides of the border to assess key mutual threats. Beyond these arrangements for formal cooperation, a report by the British-Irish Parliamentary Assembly in 2015 noted the excellent informal, day-to-day cooperation on operational matters.[109]

90. If there was a commitment to continued cooperation between the two Governments, the PSNI Chief Constable said he was "absolutely sure that the quality of the relationships and the professionalism of both organisations [i.e. the PSNI and Garda] would not be diminished".[110] However, he did acknowledge the way in which EU processes and institutions facilitated cooperation between the PSNI and the Garda and with other police forces around Europe: "[a Brexit] would make a difference in terms of the formalities because a lot of the infrastructure—not all of it—is built on EU structures for exchange of information and so on".[111]

91. There are several EU-level mechanisms that the PSNI can access as a police force of an EU member state. Perhaps the most high profile component is the European Arrest Warrant (EAW). Concerns have been expressed that the EAW is overused by some countries and incurs excessive costs to Northern Ireland. However, the PSNI has also stressed the benefits. In 2013 Assistant Chief Constable Mark Hamilton told the Assembly's Justice Committee that: "[t]he European arrest warrant is the quickest and most effective way for both sides to recover suspects to be tried in either the Republic of Ireland or in Northern Ireland".[112] Between its introduction in 2004 and 2013, the PSNI received around 265 European Arrest Warrants for action in Northern Ireland

108 Q526 [George Hamilton]
109 British Irish Parliamentary Assembly Committee A, Cross-border Police Cooperation and Illicit Trade, 2015
110 Q542 [George Hamilton]
111 Q543 [George Hamilton]
112 Northern Ireland Assembly Justice Committee, Policing Issues: Briefing by the Chief Constable, 19 September 2013, p 35

and applied for approximately 50, 30 of which were to the Republic of Ireland.[113] After Parliamentary approval in December 2015, the UK is currently in the process of opting into the Prüm Convention which will allow reciprocal access to fingerprint, DNA and vehicle registration data collected by the police forces of signatory countries. Europol and Eurojust were established to facilitate cross-border investigation and criminal prosecution across Member States. The Chief Constable emphasised that these current arrangements were useful in fighting crime that was increasingly cross-border in its nature: "All of this is probably doable with an exit [from the EU] but it will be slower, complicated and more costly."[114]

92. However, cooperation between police forces is not confined to EU Member States. Whilst these EU institutions have facilitated cross-border working with the Garda and with the police in other EU Member States, the Chief Constable also emphasised the strong working relationship with non-EU countries such as the US.[115] The Minister stressed to us the significance of intelligence sharing between the "Five Eyes" countries.[116] Nor is participation in a number of these EU institutions limited to full EU members. Europol has partner arrangements with countries outside the EU, such as Australia, Canada and the US. Norway is a Europol partner, has an agreement with Eurojust and participates in Prüm.[117] Leaving the EU need not necessitate a complete withdrawal from all these mechanisms.

93. **If crime is increasingly cross-border in nature, policing must also be cross-border and the British Government must ensure that the PSNI has the maximum possible access to international collaborative mechanisms. This should include, though not be limited to, the existing EU mechanisms. In the event of a vote to leave the EU, access to these, or equivalent measures, should be included in any deal between the EU and UK.**

The Single Electricity Market

94. There is a high degree of interdependence between Northern Ireland and the Republic of Ireland in gas and, in particular, in electricity. Since 2007, the two parts of the island of Ireland have been operating a shared wholesale market for electricity (the Single Electricity Market or "SEM"). It was designed to allow the small and inefficient energy markets on either side of the border to benefit from economies of scale. Generators on either side of the border compete to sell electricity into a common 'pool' from which homes and businesses draw their electricity. Those generators able to sell the cheapest electricity will have the most consistent demand whilst more expensive generators might find that they are only to sell into the pool at periods of high demand. Given the electricity market was a joint cross-border initiative between Northern Ireland and the Republic, we were naturally concerned to establish the extent to which a Brexit may affect it.

95. The consensus was that a Brexit need not have an detrimental impact on the existing Northern Irish electricity sector. In its written submission, the Northern Ireland Utility Regulator said that "Given that the genesis of the SEM was neither an EU nor a UK

113 PSNI written evidence to House of Lords European Union Committee, UK's 2014 Opt-Out Decision ('Protocol 36') Oral and Written Evidence, p 488
114 Q535
115 Q534
116 Q824 [Ben Wallace]. "Five Eyes" refers to the intelligence alliance between the UK, Australia, Canada, New Zealand and the USA.
117 Q533 [George Hamilton]

requirement, any decision by the UK to leave the EU would be unlikely to undermine the economic case for a wholesale electricity market on the island".[118] This was reiterated by Robin McCormick, General Manager of SONI Ltd, the electricity transmission company for Northern Ireland, who told us "I do not see Brexit having a direct impact on the current working arrangements. The All-Island Market could continue to function".[119]

96. However, there are issues that might arise in the future if the UK were to leave the EU. The UK might no longer be bound by EU climate change and renewable energy directives whilst the Republic of Ireland would be. If the UK policy on emissions and renewable energy diverged completely, issues might arise around the selling of electricity into the Republic, which would still be bound by the EU directives. This could incur EU restrictions although it is not clear whether this would be permissible under WTO rules. Moreover, Russia currently trades with Finland and the Baltic states without tariffs even though it has not implemented climate change regulations on the same scale as the EU.

97. SEM can be seen as part of a wider trend towards greater integration of electricity markets throughout the EU. A larger market, it is suggested, is likely to improve security of supply, increase competition and lower prices for users. At the moment, the island of Ireland has little interconnection with the UK mainland which, in turn, has limited interconnection with the continent. As such, they are relatively self-contained markets. However, a new wholesale market—I-Sem—is currently being developed in anticipation of greater integration. I-Sem is being designed partly with the needs of future European integration in mind.

98. It is not anticipated that I-Sem, or the more general trend towards greater integration, would be affected by a Brexit. Non-membership of the EU is evidently not an impediment to participation in electricity market integration: in addition to Russia's participation in an integrated regional electricity market with Finland and the Baltic states, the UK has an existing interconnector with Norway.

99. **We have not received any evidence to suggest that Northern Ireland's electricity market would be detrimentally affected by a Brexit.**

118 EUN0017
119 Q656

Conclusions

Trade and Commerce

1. What sort of post-Brexit trading relationship the UK might negotiate with the EU is the question that needs to be answered before any robust evaluation of the likely impact of leaving the EU can be made. For many people, it is the main question that will determine which way they decide to vote. It became apparent during our visit to Brussels that there is an unwillingness to discuss options for UK-EU relations in the event of a vote to leave ahead of the referendum. This is probably inevitable. The future relationship will be the product of a negotiation process between the UK and the remainder of the EU. Nobody has the authority to state in advance of that negotiation process what the outcome will be, including the extent of Single Market access for UK firms and the extent of regulatory compliance. However, it means that one of the most important questions in the minds of many remains unanswered and votes will be cast on the perception of risk and the balance of probability. (Paragraph 34)

2. Clearly negotiations cannot exclusively prioritise the interests of Northern Ireland to the detriment of other parts of the UK. But neither can UK-level interests be allowed to dominate the UK's bargaining position at the expense of Northern Ireland. In the event of a vote to leave the EU, it is imperative that Northern Ireland's economic priorities, such as gaining a good deal for agricultural and manufactured goods, are given due prominence by the UK Government in any subsequent negotiations. However, the likelihood of this cannot be guaranteed. (Paragraph 35)

Agriculture

3. Tariffs on the scale of those currently imposed by the EU under the WTO's Most-Favoured Nation conditions would be hugely damaging to Northern Ireland farmers. Trade within the UK would be enhanced if substantial tariffs on EU imports into GB were put in place, but exporters in sectors such as dairy would be badly affected, especially in the context of a continued global oversupply. Agreeing a free trade deal that includes agriculture would need to be a priority for the UK Government in the event of a Brexit. That deal would need to recognise that the profile of agriculture in Northern Ireland is different from the UK as a whole and should include tariff-free exports of dairy and beef. (Paragraph 57)

4. There has been a precipitous fall in Northern Irish farmers' income from farming, which means the future of agricultural support is a particular concern for the sector. Without support, much of Northern Ireland's agriculture would be unviable. In the event of a vote to leave the EU, a new system of agricultural support should be high on the agenda of both the UK Government and the Northern Ireland Executive. (Paragraph 69)

The Border and Cross-Border Issues

5. Outside the EU, the UK would be free to negotiate a special status for Irish citizens: Professor Dagmar Schiek, Jean Monnet Chair of EU Law and Policy at Queens University Belfast, told us that there is some latitude within the EU's rules to allow some bilateral agreement between the Republic of Ireland and the UK over the border. However, she emphasised that it would require the remaining EU members to agree to this: "Under EU law, any future relation between the Republic of Ireland and the UK would be subject to agreement not only with the Republic of Ireland, but with the whole of the EU". (Paragraph 74)

6. There must be doubts about the extent to which, in the event of a Brexit, the border between Northern Ireland and the Republic could be effectively policed and the disruption to those who cross the border for work or study would be considerable. However, imposing security checks for those travelling between parts of the UK would also be highly undesirable. In the event of a Brexit, an arrangement that maintains a soft land border between Northern Ireland and the Republic but which does not see restrictions imposed on travel within the UK would need to be a priority. (Paragraph 80)

7. The peace process has ultimately been successful because of the commitment of successive UK and Irish governments and the willingness of politicians and the communities they represent to put aside past differences sufficiently to allow Northern Ireland to be governed peacefully. It is clear that the relationships that both the Northern Ireland Executive and the UK Government have with the Irish Government continue to be very strong, and we expect that would continue to be the case regardless of the outcome of the referendum. (Paragraph 86)

8. If crime is increasingly cross-border in nature, policing must also be cross-border and the British Government must ensure that the PSNI has the maximum possible access to international collaborative mechanisms. This should include, though not be limited to, the existing EU mechanisms. In the event of a vote to leave the EU, access to these, or equivalent measures, should be included in any deal between the EU and UK. (Paragraph 93)

9. We have not received any evidence to suggest that Northern Ireland's electricity market would be detrimentally affected by a Brexit. (Paragraph 99)

Appendix 1: Referendum position of members of the Committee

The list below sets out whether each Member of the Committee supports the UK remaining a member of the European Union (Remain) or leaving the European Union (Leave).

Mr Laurence Robertson (Chair) (Leave)

Tom Blenkinsop (Remain)

Oliver Colvile (Remain)

Mr Nigel Evans (Leave)

Mr Stephen Hepburn (Remain)

Lady Hermon (Remain)

Kate Hoey (Leave)

Danny Kinahan (Remain)

Jack Lopresti (Leave)

Dr Alasdair McDonnell (Remain)

Nigel Mills (Leave)

Ian Paisley (Leave)

Gavin Robinson (Leave)

Formal Minutes

Wednesday 25 May 2016

Members present:

Mr Laurence Robertson, in the Chair

Tom Blenkinsop	Kate Hoey
Oliver Colvile	Danny Kinahan
Mr Nigel Evans	Dr Alasdair McDonnell
Mr Stephen Hepburn	Gavin Robinson
Lady Hermon	

Draft Report (*Northern Ireland and the EU referendum*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 99 read and agreed to.

Appendix agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till 8 June 2016 at 9.15 am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 3 February 2016

Question number

Professor Neil Gibson, Director, Economic Policy Centre, University of Ulster, **Dr Leslie Budd**, Reader, Open University Business School, and **Dr Graham Gudgin**, Research Associate, Centre for Business Research, University of Cambridge	Q1–33
Dr Cathal McCall, Reader in Politics, Queen's University Belfast, **Dr Lee McGowan**, Senior Lecturer in Politics, Queen's University Belfast, and **Professor Dagmar Schiek**, Jean Monnet Professor of EU Law, Queen's University Belfast	Q34–62

Wednesday 10 February 2016

Tom Arnold, Director General, Institute of International and European Affairs, and **John McGrane**, Director General, British Irish Chamber of Commerce	Q63–120
Dan Mulhall, Ambassador of Ireland	Q121–164

Wednesday 24 February 2016

Wilfred Mitchell OBE, Policy Chairman, Federation of Small Businesses, Northern Ireland branch, **Roger Pollen**, Head of External Affairs, Federation of Small Businesses, Northern Ireland branch, and **Patricia O'Hagan MBE**, Chief Executive Officer, Core Systems Ltd	Q165–228

Wednesday 2 March 2016

Conor Houston, Programme Director for EU Debate NI, Centre for Democracy and Peace Building	Q229–288

Monday 7 March 2016

Mike Nesbitt MLA, Ulster Unionist Party, and **Michael McGimpsey MLA**, Ulster Unionist Party	Q289–340
Declan Kearney, National Chairperson, Sinn Féin, **Paul Maskey MP**, Sinn Féin, and Megan Fearon MLA, Sinn Féin	Q341–391
Gavin Robinson MP, Democratic Unionist Party	Q392–425
David Ford MLA, The Alliance Party of Northern Ireland, and **Stephen Farry MLA**, The Alliance Party of Northern Ireland	Q426–460
Jim Allister MLA, Traditional Unionist Voice, and **Councillor Henry Reilly**, Traditional Unionist Voice	Q461–477
Colum Eastwood MLA, Social Democratic and Labour Party	Q478–504
Steven Agnew MLA, Green Party in Northern Ireland, and **Councillor Ross Brown**, Green Party in Northern Ireland	Q505–524

Tuesday 8 March 2016

George Hamilton QPM, Chief Constable, Police Service of Northern Ireland, and **Will Kerr**, Assistant Chief Constable, Police Service of Northern Ireland	Q525–546
Dr Joanne Stuart OBE, Former Chairman, Institute of Directors Northern Ireland, **Ian Sheppard**, Chair, Economic Strategy Committee, Institute of Directors, **Andy Bagnall**, Director of Campaigns, CBI, **David Gavaghan**, Chair, CBI NI, and **Judith Totten**, Chair, CBI NI Economic Affairs Network	Q547–619
Glyn Roberts, Northern Ireland Independent Retail Trade Association	Q620–648
Robin McCormick, General Manager, SONI Limited	Q649–673

Wednesday 16 March 2016

Wesley Aston, Chief Executive, Ulster Farmers' Union, and **Ian Marshall**, President, Ulster Farmers' Union	Q674–679

Wednesday 23 March 2016

Ben Wallace MP, Parliamentary Under-Secretary of State, Northern Ireland Office	Q680–859

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

EUN numbers are generated by the evidence processing system and so may not be complete.

1 CBI Northern Ireland (EUN0012)

2 Centre for Cross Border Studies (EUN0010)

3 Centre for Democracy and Peace Building (EUN0002)

4 Committee on the Administration of Justice (CAJ) (EUN0014)

5 David Donaldson Barbour (EUN0008)

6 Dr Aoife O'Donoghue (EUN0006)

7 Institute for International and European Affairs (EUN0009)

8 IoD Northern Ireland (EUN0018)

9 Labour Party in Northern Ireland (EUN0004)

10 Mark Gardiner (EUN0019)

11 Mr Dan Mulhall (EUN0011)

12 Northern Ireland Office (EUN0016)

13 Professor Dagmar Schiek (EUN0015)

14 Professor Gordon Anthony (EUN0003)

15 RSPB Northern Ireland (EUN0007)

16 Sinn Fein (EUN0001)

17 The People's Movement (EUN0013)

18 Utility Regulator (EUN0017)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2015–16

First Special Report	Northern Ireland: banking on recovery?: Government Response to the Committee's First Report of Session 2014–15	HC 344
Second Special Report	The administrative scheme for "on-the-runs": Government Response to the Committee's Second Report of Session 2014–15	HC 195