

**David Sterling**  
**Head of the Civil Service**  
Room FD.34, Stormont Castle  
Stormont Estate, Belfast  
BT4 3TT, Northern Ireland  
Tel: 028 9037 8133  
E-mail: [hocs@executiveoffice-ni.gov.uk](mailto:hocs@executiveoffice-ni.gov.uk)

HCS-125-17

Olly Robbins  
Permanent Secretary  
Department for Exiting the European Union  
London

23 August 2017

Dear Olly

In this period post-publication of the recent Customs and Northern Ireland and Ireland Position Papers, I am conscious that we now have a time sensitive opportunity to provide much needed certainty to citizens, investors and businesses in Northern Ireland. In this light I would be grateful for further engagement to help deliver on the aim for swift progress on upholding the Belfast (Good Friday) Agreement; maintaining the Common Travel Area; avoiding a hard border for the movement of goods; and preserving North-South and East-West cooperation, including energy. Further discussion on trade and migration would be particularly useful and will complement the very helpful engagements on energy.

Our previous paper commenting on your options for the land border provides a helpful reference point setting out Northern Ireland Executive officials' assessment of the key issues on the trade front. While the position papers have helpfully started a dialogue on movement of goods, many of the issues raised in June still require exploration. I have set out more detail on these points below.

### **Detail on cross-border trade exemption**

The dividing line between businesses of different sizes in Northern Ireland supply chains will undoubtedly be blurred. This could make it difficult to accurately define which businesses are exempt from customs processes. For example, bulk tankers owned or contracted by Irish milk processing firms collect raw milk from multiple farms in Northern Ireland before returning to Irish processing facilities. I believe we now need further detailed engagement to explore when the exemptions may become active in micro-to-large business supply chains.

Small businesses trading on the island of Ireland may also be using inputs from outside these islands, or be part of an island of Ireland supply chain that ultimately sells into world markets. In that context I believe it is important that our teams explore the nature of frictions and impact on trade when small businesses step outside of 'local trade in local markets'.

The scope of a suggested 'trusted trader' scheme is also important. Understanding how this scheme could support larger businesses in Northern Ireland is a key area of interest.

### **'Back door' risk**

The visibility and impact of a '*robust enforcement mechanism*' to ensure goods not complying with the EU's trade policy (whether through a lower tariff or diverging standard) stay in the UK is a significant challenge. The example of Turkey illustrates that customs duties are only one part of the picture and technical barriers can be equally disruptive to trade. Potential trade barriers created by diverging tariffs or regulatory standards are therefore a key area for ongoing discussion. DAERA is currently engaged with DEFRA on complex sanitary and phytosanitary (SPS) issues.

### **Contingency**

The Future Customs Arrangements paper trailed HM Revenue & Customs and HM Treasury's contingency plans for a standalone customs regime. I would be very keen to see more detail of the plans for the land border in a no-deal scenario, and also interested in the prospect of assurances - from both the UK Government and the EU - on protecting the nine key principles for the land border in a no-deal scenario. It is also important that we are sighted on planning in relation to policing and security requirements to implement any such scenario.

### **Benefits of independent trade policy**

I welcome the commitment from the UK Government to ensure that the benefits of trade can be widely felt. Early engagement with the Northern Ireland Departments on this issue, preferably sharing distributional analysis showing the impact of free trade agreements in Northern Ireland, would be helpful.

Similarly, early dialogue on trade in services is desirable. The services sector's sales outside of Northern Ireland account for employment of around 120,000 and GVA of £5.6 billion for the Northern Ireland economy. Understanding the sector's exposure to risk and potential opportunities will be fundamental to our future economic analysis.

### **Migration**

Following on from the Home Secretary's recent Migration Advisory Committee (MAC) commission, you will be aware that the Permanent Secretary of the Department of the Economy, Dr Andrew McCormick wrote to Professor Manning on 11<sup>th</sup> August to offer assistance through the provision of relevant data. Our aim is to ensure that the evidence base available to the MAC is as complete and up to date as possible.

As thinking develops further in relation to Northern Ireland and Ireland trade it is vitally important that account is also taken of migration and access to skills issues. These strands are closely interlinked. Our long term competitiveness will not only

depend on arrangements that are in place for cross border trade but also on the skills of the workforce which delivers that trade. Differences in access to labour will influence firms' location decisions.

There is a need to ensure that the inter-related issues of standards (SPS controls), tariffs on goods, customs arrangements, trade in services, access to migrant labour, transiting arrangements and continuation of the CTA are not considered in isolation because the interaction of these and other issues will significantly influence outcomes, particularly in Northern Ireland where the circumstances differ from the rest of the UK.

There are other areas too beyond trade and migration on which we would like to see a more intensive and open engagement between Whitehall and NICS officials. These include: future/replacement EU funding options; repatriation of powers/UK frameworks; security and justice cooperation; and the planned legislative programme. Upholding the Belfast (Good Friday) Agreement and all associated North/South and East/West cooperation also requires further detailed consideration. I appreciate that there are already lines of communication between our respective departments on each of these but would hope that we could progress these to more intensive joint working arrangements. I would welcome your thoughts on how this could be achieved.

In particular, on Common Frameworks, we have begun to develop bilateral engagement between the relevant NI Departments and their counterparts – however, we also recognise that UKG will be playing a central co-ordination role and it will be important that there is a clear strategic prioritisation of that work based on the principles set out in Philip's letter initiating that process last month.

Finally, I found the last readout from the UKG / EU negotiations very helpful. I hope that a similar session can be arranged after next week's round of negotiations. While touching on the above issues in this setting would be helpful, my sense is that a detailed discussion amongst policy experts would be more appropriate. The positive experience of the Northern Ireland Trade Data group (chaired by DEXEU) has shown that collaboration between Whitehall and Northern Ireland Departmental policy leads can be extremely effective. I would welcome your thoughts on how a similar group can take forward the next phase of policy testing.

I am copying this letter to Philip Rycroft, Alex Chisholm, Clare Moriarty, Philip Rutnam Home Office, Richard Heaton MoJ and Jonathan Stephens for information.

Yours sincerely



**DAVID STERLING**  
**Head of the Northern Ireland Civil Service**