



Northern Ireland
Assembly

**COMMITTEE
FOR THE OFFICE OF THE
FIRST MINISTER AND DEPUTY
FIRST MINISTER**

**OFFICIAL REPORT
(Hansard)**

European Issues

10 November 2010

NORTHERN IRELAND ASSEMBLY

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DEPUTY FIRST MINISTER**

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Members present for all or part of the proceedings:

Mr Tom Elliott (Chairperson)
Dr Stephen Farry (Deputy Chairperson)
Ms Martina Anderson
Mr Allan Bresland
Mr William Humphrey
Mrs Dolores Kelly
Mr Danny Kinahan
Mr Barry McElduff
Mr George Robinson
Mr Jimmy Spratt

Witnesses:

Ms Jane Morrice)
Mr Mike Smyth) European Economic and Social Committee

The Chairperson (Mr Elliott):

You are both very welcome. The presentation will be reported by Hansard for our information. I believe you have been the first to use our “holding centre”, which is just down the corridor. I hope it works out well for all Committees.

I ask that you give a presentation lasting no more than 10 minutes, after which members will

ask questions.

Ms Jane Morrice (European Economic and Social Committee):

Thank you very much. We are delighted to be here for the third occasion. What is important and interesting is that this is the start of a new five-year mandate for us, so it is a good time to suggest that we brief the Committee on a regular basis, certainly a couple of times a year. We are happy to oblige, and we see it as part of our work to brief the Committee. I have a tendency to prefer providing oral evidence, simply because I think paperwork can get lost in the bundles. It also gives members the opportunity to ask questions, although that is up to you.

I mentioned the new five-year mandate that started in October. Mike will not blow his own trumpet, so I will have to: he has been elected president of the Economic and Monetary Union and Economic and Social Cohesion (ECO) Section, which is one of the seven sections in the Economic and Social Committee. It is a high powered position and he was elected and supported unanimously. It is very useful that we in Northern Ireland have someone in that position.

I have been selected for the Communications Committee, and I am still on the two committees that I was on before; the Transport, Energy infrastructure and the Information Society Unit (TEN), which deals mainly with transport and energy, and Employment, Social Affairs and Citizenship Unit (SOC), which deals mainly with equality, human rights, democracy and that sort of thing.

In Brussels, we recently received an interesting overview of the challenges by the European Policy Centre. Mike and I would not necessarily agree with everything that was said, because it supported the Euro-sceptics on the challenges, but I just want to give you a wee flavour. It says that the EU is like a supertanker without a navigation system and that it is becoming less attractive. It also says that there is increasing nationalism in the EU, that member states are in decline, that the EU is gradually becoming marginalised and increasingly irrelevant in the global context, that the power is shifting from west to east, that there is an erosion of economic might, that there is a legitimacy crisis and that there is climate change fatigue. That is a total doom-and-gloom scenario that I do not agree with. However, we should take advantage of that.

I now hand over to Mike to talk about the challenges, especially economic ones.

Mr Mike Smyth (European Economic and Social Committee):

Thank you for giving me the opportunity to speak to you. I want to talk about five or six different issues that encapsulate where Europe is at the moment. Some of those are high-level macro issues and others are more practical.

I begin with the fifth cohesion report, which was published this morning. It looks very thick, but it is only 10 pages long; the rest of the document consists of tables. I commend that report to all Committee members. Cohesion policy in Brussels is all about helping poorer regions to catch up with richer regions and how that can be done. Although Northern Ireland did not benefit from the initial cohesion push, there is every reason to think that we fit logically into the criteria for help. Three types of regions are defined: convergence regions, transition regions and richer regions, which have high employment.

The report is worth studying. From my initial reading of it, we are either among the convergence regions or the high-employment and competitive regions. Either way, there are very practical proposals in the report that we need to take on board.

The second thing that I want to talk to you about is Europe 2020. As you know, that is the replacement for the so-called Lisbon strategy, which was a damp squib. The theme of Europe 2020 is the creation of smart and sustainable employment. Let us face it, the future of Europe, particularly northern Europe, has to be based on the creation of smart and sustainable jobs, because we seem to be permanently exporting the lesser jobs south and east.

I would not get too preoccupied with Europe 2020 at this stage, because it has been overtaken by austerity across Europe. Britain, Ireland and Greece are not alone in dealing with austerity. The idea that you can somehow create smart and sustainable jobs does not wash at a time when economies are having to make gut-wrenching decisions about taxation, public services and public expenditure. Brussels seems to be changing tack and talking about public efficiency. It will get back to the Europe 2020 agenda, probably after 2014 or 2015 when the austerity programmes get public budgets back to where they should have been.

Falling out of the clash between the highly acceptable objectives of Europe 2020 and the reality of austerity is the sovereign debt problem, which is preoccupying Brussels greatly at the moment. As you may be aware, in May the Council of Europe created the European financial

stability mechanism and the European financial stability facility, which provide a total of about €750 billion of assistance for countries that face sovereign debt problems. That is code for Greece, which has already dipped into that money. However, since then, as you know, other countries — Ireland, Spain and Portugal — have faced similar downgrades in the sovereign debt markets.

To cut a long story short, the very future of European monetary union and the euro is still up for grabs. Although the stability mechanism and stability facility are there, they are not permanent. They have a three-year lifespan. Whether they become permanent is up for debate. Although on paper €750 billion is a lot of money to help any set of countries out of problems, the price that countries will have to pay in austerity to draw that money down may be too high.

In Greece, the riots have stopped, and the austerity programme is under way, but that has to continue for the next five or six years. It remains to be seen whether Greek society will accept that.

Until now, the Republic of Ireland was seen in Brussels as the model of how to deal with austerity. The Republic has had three very tough Budgets in a row, but the one next month will be €6 billion of a cut on top of three years of cuts. That is very challenging, and it remains to be seen whether social cohesion in the Republic holds, or whether the electorate is prepared to accept that very high price.

The whole future of the euro is still in the balance. My own feeling, and I do not mind it going on the record, is that I cannot see Greece not defaulting. It may not default in 2011, but there has to be a real question mark by 2012 whether Greece has the appetite for the sorts of choices that it has had to make.

That leads inevitably to the Budget. I am sure that you are familiar with the tangle going on about agreeing a Budget for the European Union. I am not saying that it is much ado about nothing, but I wonder how many of you are aware that the European Union Budget, for all its problems, represents less than 5% of total public expenditure in the 27 member states, including us.

We are getting it out of proportion here. Even though we may think that their accounts do not

get signed off by the auditors, and may have read in the tabloid press about bureaucracy in Brussels, I still look at the Berlaymont Building. There are 3,600 Eurocrats there who run a Europe of 27 nations. There are 900 people working in Dundonald House in the Department of Agriculture.

We can fall into the trap of seeing Brussels as a gravy train, as high-bureaucracy and high-cost. In fact, research shows that it is one of the most efficient bureaucracies in the Western world. Be that as it may, there is no agreement about its 2012 Budget. The proposal that was agreed for a 2.9% increase will probably be accepted by the Parliament. That is the feeling.

However, the debate has been going on, and Brussels produced a paper on the Budget review, in which it evaluated options for the future Budget, including raising more revenue itself. The revenue for Brussels comes from contributions directly from member states, and the VAT contribution that we all make. Brussels is seriously contemplating bringing in its own revenue sources. There are a number of suggestions that I am happy to talk about.

I repeat: we are talking about 5% of total public expenditure in the EU. That is important. On a more positive note —

The Chairperson:

Can I ask you to wind up, please?

Mr Smyth:

Very quickly: two things. The big new idea knocking around Brussels at the moment is macro-regional co-operation. That is the new way that Brussels sees to get better value for money from regional structural funds. Brussels has already launched the Baltic Sea strategy, which is now into its second year. I attended its first annual review conference and the results are very encouraging. The Baltic is becoming much cleaner and the fish stocks are rising again. There is every reason to believe that some of the big problems shared among the countries along the Baltic can be solved co-operatively. The Danube macro-regional strategy is even more complex, especially in the light of the recent environmental scare in Hungary. It will be given the assent of the council in the early part of next year. Plans are already afoot for a Black Sea strategy.

The strategy that concerns us most is the North Sea and Channel macro-regional strategy.

That comprises Denmark, Germany, Netherlands, France and the United Kingdom — but not Northern Ireland. Northern Ireland is in the United Kingdom but it remains to be clarified as to whether it is involved in the strategy, as we are situated on the other side of the Irish Sea. However, I argue strongly that we all share the challenges that will be addressed by the North Sea and Channel marco-region and that we should be in there as of right.

At our last meeting I mentioned our relationship with the European Investment Bank. It seems to me that we continue to miss an opportunity. The European Investment Bank is set up for a very specific purpose. That purpose has diffused a little, but the bank is there fundamentally to help countries invest in their future. It is sad to note how little business we do with the European Investment Bank, and I am happy to take questions and suggest ways in which we can do more.

The Chairperson:

Thank you very much for your presentation and congratulations on your new appointment. A lot has been happening in Europe on finance. You said that it is very likely that Greece will default. What are the outworkings of that? What will happen if it does?

Mr Smyth:

I am very glad that you asked that question. I will answer it in two parts.

The Commission has created a giant sticking plaster called the European financial stability facility (EFSF). The Commission hopes that in time that sticking plaster will become a plaster of Paris and will give some stability. It is complicated. The sticking plaster will give German, French and British banks an opportunity to lessen their exposure to Greek sovereign debt. Those banks are already doing that. The money that Greece is borrowing from the EFSF is helping to pay off debt to French, German, Dutch and British banks. Over time, their exposure to debt will diminish.

However, if Greece defaults in 18 months or two years' time, the banking system in Europe will be hit with another tsunami, and that system is already weak. Therefore, the first danger is that there will be another banking crisis and we do not want that. It is, however, unlikely because the flaw in the Lisbon Treaty is that it is totally silent about what Europe does in the event of a sovereign default.

I have written my opinion on an alternative course of action. The suggestion that I supported was the creation of a European monetary fund, an institution that would sell Eurobonds on the bond market and manage a default by Greece. The difference between a managed default and one not managed is that, in the event of a non-managed default, the haircut that banks will take if Greece defaults will be 40%, 50% or 60%, which would be catastrophic. In the event of a managed default, that haircut might be 10% or 20%, which is manageable. If one invests in a company that goes belly-up as a shareholder, one looks to the receiver or administrator to find —

The Chairperson:

What use are the bonds, Mike?

Mr Smyth:

The bonds would generate the funds to support a managed default.

The Chairperson:

How does the country that provides funds get its money back?

Mr Smyth:

Do not forget that under the EFSF, we are now issuing triple A rated bonds. Britain is one country which, even though it is not in the euro zone, is currently underwriting bonds to the tune of 120%.

The Chairperson:

I am asking how member states that provide funds get their money back.

Mr Smyth:

There are 25-year bonds, high interest rates and long-term risk.

The Chairperson:

Paid by whom?

Mr Smyth:

It is guaranteed by the European monetary fund, the Commission and the European Central Bank.

Ultimately, it would be guaranteed by us, the taxpayer, as all bonds are. We are talking about managing default. The problem with the proposal for a European monetary fund, which I believe is eminently sensible, is that some people reckon that a treaty amendment is needed to bring it into effect. Of course, now, that stumps conversation in Brussels: nobody wants to talk about a treaty amendment because of the risks that that involves. Brussels has a real problem. The Commission's point of view is that it hopes that the European Financial Stability Facility, which is 75% backed by Brussels, 25% backed by the international monetary fund, becomes permanent. That is what Chancellor Merkel proposes.

The Chairperson:

If Brussels has a real problem, as you said, Mike, do you agree with Jane's comment about the policy centre? Clearly, that is what they were indicating.

Mr Smyth:

Yes, that is a statement of fact. However, it begs the question as to what they are going to do about it. There is always the policy challenge. What is the policy response?

The Chairperson:

Therefore, you agree with the policy centre, as opposed to not agreeing with it, as Jane said?

Mr Smyth:

I agree with it in the sense that at present, prospects for the UK economy are pretty dire. We face public expenditure cuts and austerity. The service sector is on its knees. The manufacturing sector is in recovery. What are we going to do?

Ms Morrice:

It depends what way you spin that scene-setting. You can come out with the doom-and-gloom scenario. You can say that that is the way that Europe is going. However, if you reduce it to national, regional or local level, everyone is in the same boat. We are all facing —

The Chairperson:

If ever I heard a position of doom and gloom, it was Mike's. You are saying that that is exactly what the policy centre was saying. You are saying that you do not agree with it.

Ms Morrice:

I do not agree that that means that we are on a downer. I see it as an opportunity and a challenge. In Northern Ireland, we should do something about it. We have an opportunity to start to make our mark. I would come in off the back of that and say that we have things to do. We have an opportunity to do them now.

The Chairperson:

We need to move on. I have a couple of brief questions. On your previous visit to the Committee, you voiced your support for the euro to be extended throughout the entire EU. Do you still support that?

Ms Morrice:

I will hand over to Mike because he is the expert on that issue. However, I will say immediately that it is, obviously, a long-term goal. I still believe that because of Europe and its identity, and being a European, I value the euro as a currency for the single market. However, I realise that that goal is pretty unrealistic in these times. Mike is the expert. He can tell you the reasons why it is unrealistic.

The Chairperson:

Does that mean that you were wrong to promote the extension of the euro?

Ms Morrice:

I do not mind saying that I was wrong. I still see it as a long-term goal. I am a believer in Europe and in the single currency. It is good for our identity as well as for all other reasons. It saves us money in the long run.

The Chairperson:

Finally, during our previous meeting, you indicated how little use is being made of the European Investment Bank. What have you done about that? Have you discussed that with Government here?

Mr Smyth:

Oh boy. Yes. I had better have a look around.

The Chairperson:

Do not worry; the meeting is recorded by Hansard anyway. It will all be available.

Mr Smyth:

It is part of a wider debate on how we respond to the comprehensive spending review. Just after the election and prior to the emergency Budget package in June, I was saying that we had three or four months in which to have a serious conversation among ourselves. It seemed to me that if we did nothing, we would get cut. I know that the First Minister and deputy First Minister lobbied strongly. We pretty much got cut, although, perhaps, not as much as we were told we would be. We certainly did get cut, however. I was trying to tell elected representatives, and the wider public, that we can do a lot more for ourselves here.

Prior to the cuts, the whole argument, if you remember, was about how we would manage £1.5 billion, £2 billion, £3 billion or, as it turned out, £4 billion. To me, that was a one-sided argument. My argument was that the other side of that is how we raise expenditure and revenue. The observation that Northern Ireland could do a lot more to raise revenue for itself, which I know is not politically very acceptable, has to be seen in the context of the fact that, in 2007-08, the gap between the public services that we consumed and the taxes that we paid was £7.3 billion, or £4,600 per man, woman and child. In 1994, the gap was £3 billion. In that time, the peace process has been under way and the extent to which we are structurally dependent on the taxpayers in Great Britain has more than doubled. That is very worrying for our future, for our children and for our grandchildren. That is what motivates me.

In 2007, and I can quote his speech verbatim, the Finance Minister, now the First Minister, said:

“As a result of the measures introduced in January 2007, every household in Northern Ireland will be £1,000 a year better off.”

Part of me said, “good on you”, because that was the first time in my adult life that I had heard a Northern Ireland Minister trying to buy some votes. I thought that that was great and that it was normal politics starting to come back here. However, another part of me was horrified, because we could not afford it. In 2007, with a deficit such as that, we could not afford it.

In 2010, the world has changed. However, I do not see any discussion about unpicking some of the measures from the 2007 Budget, such as free prescriptions. It is obscene that people such

as me and Jane are not paying for prescriptions when we are capable of doing so. The original budget for free prescriptions was £12 million. Ask DFP now, and it will tell you that that is currently running at £22 million. If things are made free, people will over-consume them. Another measure was the freezing of domestic and non-domestic rates. Three years on, when we are desperate to protect front line services, it is high time that we unpicked that measure. If rates were brought up by just the rate of inflation over the past few years, that would bring in over £200 million, which is two thirds of the annual cut.

Furthermore, there has been no serious discussion about the introduction of water charges. As someone who took part in the debate on water charges, and who bears the scars of debating with Eamonn McCann in the Guildhall, I can tell you that I am prepared to concede, on the record, that Eamonn McCann may have been right when he argued that people already pay for water in their rates. However, if that is true, it still does not answer the fact that they do not pay enough. In Britain, water has been privatised. You have to understand that there is no Barnett connection between water here and water in Britain. There is no budget line in the UK Budget for water.

We do not get any money from London to pay for water here, because water has been privatised there. If we do not want to introduce water charges, we have to pay for that out of the block grant. Every year in which we do not introduce water charges is costing north of £200 million that we could use elsewhere.

European investment —

The Chairperson:

We are very much getting into domestic financial issues. My question was about the European Investment Bank and what you have done. We have gone desperately off that, if you do not mind me saying so, although I appreciate the importance of the issues that you have raised.

Mr Smyth:

The connection to the European Investment Bank is that, although central Government Departments cannot borrow money, we already borrow £200 million a year from the reinvestment and reform initiative (RRI). However, local government here has the ability to borrow. Most local —

The Chairperson:

Let us cut to the chase: have you communicated that to the Government of Northern Ireland and what answer, if any, have they given you?

Mr Smyth:

They accused me of fantasy finance.

The Chairperson:

That is interesting.

Ms M Anderson:

Thanks for that presentation. I appreciate it. Jane, you said that we can take advantage of the policy centre's doom-and-gloom outlook. Will you elaborate a bit on that? Michael, I do not know whether you had an opportunity to read the document because you said that it is just out today. I am very conscious of the fact that, when we carried out the inquiry, we identified that the networking that goes on between the Executive and Departments and Europe needs to be accelerated. We hope that the outworkings of the inquiry will bring about the Departments having a better approach to and a greater focus on Europe. We saw some evidence that it was at least being taken more seriously than before. Perhaps you could give us a view on that. There are a number of other questions that I would like to ask, but the Chairperson is trying to restrict time.

Ms Morrice:

Thank you. That is where I wanted to get to in respect of what the Committee can do to spread the word about getting more out of Europe. I will cut to the chase. We are starting to make use of and recognise our unique position in relation to conflict transformation. There are those who would say that we are definitely not there yet and that we have some way to go. However, that does not mean that people cannot learn from our lessons. A good example is the fact that the European External Action Service has been set up, with Catherine Ashton as its high representative.

There is a whole new dynamic in the European Union about foreign policy and that sort of thing. However, when President Obama started the Middle East peace talks on 2 September in Washington, where was Catherine Ashton? Where was Europe? They were nowhere to be seen.

That is a big problem because Europe has a very important role to play in peace-building, not just peacekeeping, in the world, but where is it? That is where Northern Ireland comes in right at the heart of things because the Northern Ireland experience — what we have been through, the lessons that we can teach and that we can learn to keep building — is hugely important to the European Union. That should be the European Union's navigation point and *raison d'être*.

Terrorism is the biggest security threat in the world at the moment. Northern Ireland has something very valuable to give from its learning from that. We are not doing enough. However, we have applied for, I think, £20 million or £30 million for the setting up of a conflict transformation centre. It is very important that that should be a European centre because we should not use that to navel-gaze; we should use it to broaden out our view. I have 25 politicians from the Lebanon coming to Stormont the day after tomorrow because they want to learn about what we have done here and learn the lessons. That is Beirut, and there are so many other parts of the world that are affected by conflict. That is something that we could really work on. I see that we are, but we could go further.

Martina, you made the point about doing more and you mentioned the document on European engagement. We should not just focus on engaging more with the institutions in Brussels. We should do that, obviously, and there should be many more secondments, internships, exchanges of information and groups going out there. The Council for the Homeless is coming out to see a plenary session in Brussels in December. There are exchange groups that could go backwards and forwards, but there is also a role for the Assembly regarding its relationship with other regional Assemblies and Parliaments. More work should be done between the Assemblies here and Poland, Greece, Cyprus, Spain, and so on. We should start to make those links, not just one way to Brussels. The approach should be spread out, not scattergun, but looking strategically at what Administrations should be linked up with and what the value is in those contexts. Those are just two examples.

Mr Smyth:

The cohesion report has three messages for Northern Ireland to take on board. The first is that the future lies in supporting innovation, research and development at all levels in our economy. Brussels will support that approach. Under present proposals, state aid rules will change in 2014 and the current grants structure to encourage investment here will no longer be available. There will be grant assistance only for research and development and innovation. We need to prepare

for that in the three or four years that we have to get ready.

The report also encourages regions to identify and support their growth sectors and strengths. It seems to me that doing that became a bit unfashionable here, but Northern Ireland needs now to start to identify sectors of activity in which it will specialise in the future.

The report's third message may be unwelcome, but it reinforces that the only game in town is competitiveness and that Europe can protect up to a point, but, ultimately, globalisation means that a region that is not competitive locally or nationally has no economic future. Therefore, whatever it takes must be done to improve, enhance and continuously improve competitiveness. Again, I think that that lesson has been learned here, but it is sort of subservient to the first two.

Engagement is about taking part. The problem for Jane Morrice and me in Brussels is that, wherever we are, we represent civil society here. I have heard Jane speak up on many occasions on behalf of Northern Ireland and I have tried to do the same. However, we are also there to take part. I am not speaking personally, but whether a Euro-sceptic or a Europhile and whether or not we support the European Union, we are in it and we should take part in it.

We may not agree with the European Union, but to get the most out of it we have to take part in it. Until now, we seem to have relied on our Objective 1 status. We were like a cuckoo in the nest with its mouth open, and the money was just poured in. Peace I, the SEUPB, Peace II, and so on, followed as other dollops. Those times are coming to an end, and that raises some questions. Are we prepared to chase funding? Are we prepared to become more involved in Europe? It is competitive and we would need to form alliances with other regions. However, that is the game that we have to start playing; it is a very enjoyable and a winnable game.

Mr Humphrey:

Thanks for your presentation. I have a couple of questions. First, what I have heard suggests that it is safe to say that the British pound will continue long into the future, hopefully indefinitely. When talking about managing default, you outlined the prevailing situation in Greece. Ultimately, European taxpayers are footing the bill for that. Given that the European financial stability facility that you talked about is 75% funded by Brussels and 25% by the International Monetary Fund (IMF), what happens if the Irish Republic, Spain and Portugal follow suit with Greece. Particularly if nations default, is the money there to, in effect, bail those countries out? I

am grateful for the statistics that you gave us on the contribution to the European Union being 5% of national Budgets. Is the money going to be there to bail those countries out, if that were to happen?

You talked about the North Sea and Channel region and whether Northern Ireland is part of that. As you represent and participate on behalf of Northern Ireland, what representations have you made to ensure that we are?

The perception is that Europe is a gravy train and that money is no object. One of the reasons for that is that the European Parliament will up sticks and move from Brussels to Strasbourg. The cost of that is something that neither I nor people outside understand. Is there a need for that? Can that abuse of public finance be justified in the current economic climate?

Ms Morrice:

I will answer the question about the Parliament. We are independent of it, so we can give our own view on that. My view is that moving the Parliament would be absolutely crazy; the seat should be in Brussels. There is a long-standing agreement with the French that the Parliament should be in the Alsace-Lorraine region on the border between France and Germany, which was an important and sensitive area after the war. The promise that was made is being kept.

Mr Humphrey:

With respect, however, they are very good at disregarding practically every other European treaty whenever it suits them.

Ms Morrice:

Of course; therefore, I do not defend that at all. You are absolutely right. The more we put pressure on for it to change, the better. The citizen's initiative, which was introduced under the Lisbon Treaty, is a very useful way of doing that. If a million signatures from people in a certain number of member states — I do not think they have decided how many yet — are presented to the European Commission, the Commission has to make some sort of proposal. I am surprised that that has not happened. There was one going around, but I do not know whether it fits the criteria for challenging the location of the seat at Strasbourg, but it should happen, and I would be very interested to see it happen.

Mr Smyth:

If you speak, as I do all the time, to some of our French colleagues on the committee, you would know that they are pretty embarrassed about it. They represent a cross-section of French society. It is a bit like the British rebate; it is not what it used to be. It was OK when agriculture was taking 80% of the budget, but it has shrunk a bit. The French insistence on Strasbourg will eventually go away.

I will answer those two interesting questions that you asked. If, next year, Ireland, Portugal or Spain cannot sell their debt on the bond markets, they could go to the EFSF and they would get money at about 5% as opposed to nearly 8% now on the bond markets. The money is there to bail them out in that sense, to give them a short term solution. However, we cannot talk about bail-outs without talking about austerity. Olli Rehn was in Ireland earlier this week to verify for himself the austerity measures that are in place for Ireland to theoretically get its debt to GDP ratio — its Budget deficit — down to 4% of GDP by 2014. That is a huge challenge now. Is there any guarantee that the final bill for bailing out Anglo Irish Bank and Allied Irish Bank is what they say it is? Every time it is revised, it is revised upwards.

The answer to your question is yes, the money is there. However, that does not address the underlying issue: are the electorates in those countries prepared to take four or five years of austerity? That money will just go to pay wages and salaries. Public spending will have to be cut drastically in all those countries.

It is a weakness in the treaty, because there is no provision for dealing with that. The stability and growth pact has failed, and the emergency procedure that created the ESF and the EFSF has been used once. We cannot go on saying that we are in exceptional circumstances, because, after a while, credibility with the bond markets will be gone, as will the European Union's credibility. In Brussels, nobody wants to talk about this. Officials there think that the EFSF is the end of the story and hope that three years is enough for countries to put their houses in order. I have my doubts about that.

With regard to the North Sea and Channel region, I have to be careful about what I say. On two occasions, I have made representations to Brussels about that. The man in charge is an Englishman called David Sweet who works in DG Regio. He readily admits that there is no reason why Northern Ireland should not be part of the North Sea and Channel region, because we

share the same problems, such as pollution and trafficking. However, someone from Northern Ireland with political clout has to ask for membership. I have lobbied for membership, but that is all that I can do. We need someone to stand up in the Committee of the Regions and the European Parliament and say that if the United Kingdom is in the North Sea and Channel region, Northern Ireland should also be in it. It is not too late for that to happen.

What is the advantage of being in it? There is no additional money up to 2014, because the structural funds have already been allocated. However, thereafter, those macro-regions will be the main focal point for structural funding from DG Regio. So, there is every advantage from lobbying to be a part of it.

Mr Spratt:

Thank you for the presentation. Mike, you mentioned that 5% of national spend goes to Europe. That does not sound very much, but it is a different story when you go into the millions of pounds that membership of the EU costs. Small businesses talk about what Europe costs them on account of some of the legislation that it has brought in. It is very easy to talk about 5%, but when you look at the overall cost, the bureaucracy and some of the legislation that has been brought in, there is an issue.

The Chairperson will probably chop my head off, but you mentioned domestic rates and water charges. You need to look at the fact that rates throughout Northern Ireland were put up for a number of years before devolution; some years by as much as 19% and 20% . I understand what you said about water rates in other parts of the United Kingdom, but because of the terrorist campaign and the destruction that it caused, for 30 or 40 years the money from rates was squandered on reconstructing buildings, and all the rest of it. So, the people of Northern Ireland were still paying. There is a bit of a catch-22 situation for the Executive on that issue. The Executive took the right decision, and you would expect me to say that given my party allegiance.

I know that you are very fair minded on all of those issues, and I respect what you are saying, but there is a cost from being part of Europe beyond the 5% of national spend contribution.

Mr Smyth:

Yes, there is. I know where you are coming from when you mention small businesses. However, it is bit like the scene from 'Life of Brian' when the characters are in the tent saying, "What have

the Romans ever done for us?" You look at the Lagan Bridge, the road network, the electricity interconnectors, the electricity grid, the investment in universities and R&D. All of that was paid for by structural funds. If you did a cost-benefit analysis, you would find that Northern Ireland has done very well from its membership of the EU, even in farming, despite the recent problems.

I do not know what the cost-benefit is for the UK of its being a member of the EU. It is one of the rich regions that always paid more into Brussels in the early years, which is why it received a rebate. It does not pay in the same levels as before, but, as a manufacturing exporting nation, Britain could not survive outside of the EU. One need only look at the pattern of UK trade, with 60% of our merchandised exports going to the EU.

The Chairperson:

Not being in the EU does not necessarily mean that it would not purchase a country's products.

Ms Morrice:

It is not just the obvious things such as the Lagan Bridge. The EU's regulations, including its small business regulations, provide protection to people and consumers. For example, if we did not have rules and regulations for the pollution of our seas, what could Northern Ireland get away with? We are facing fines because we are putting raw sewage into our seas and Brussels tells us that we should not do that. We do not need Brussels to tell us that, but it has to because we are not doing it ourselves. The regulations can be quite useful sometimes.

Mr Spratt:

Mike, you mentioned innovation. That is an interesting area and one that is very much partner-based. Are Northern Ireland and the UK doing enough to get partners?

Mr Smyth:

Yes and no. The University of Ulster and Queen's University have been quite successful in exploiting the frameworks programme, which is the major vehicle that Brussels uses to encourage R&D. However, outside of the universities the answer is no, and, in part, that is because our export base is so small. Our high-tech sector is growing rapidly. I was in the Science Park last week and it is full, and although it is very gratifying to see that, it is a very small place. Therefore, the answer is that our universities are doing enough to get partners, but Northern Ireland business is not.

Ms Morrice:

The task force report referred to that sort of thing. It will be interesting to monitor that and see where we sit in the areas of the task force's report in which we have special relationships with the DGs. More work needs to be done with them.

The Chairperson:

You mentioned the cost-benefit analysis of Northern Ireland being in the EU. Has any work been carried out on that? Is there a cost-benefit analysis of how Northern Ireland and the UK have done from their membership of the EU?

Mr Smyth:

That has not been done for the UK. A couple of reports were produced by the Northern Ireland Economic Council in the late 1980s and early 1990s that touched on parts of that, but a proper cost-benefit analysis would be a huge exercise.

The Chairperson:

I do not see why it would. The figures would be fairly easy to obtain.

Mr Smyth:

It is not just the figures. We would have to assess the impact and calculate what Brussels structural funds have bought here apart from the bridges and so on. For example, there was a time when every postgraduate student here who was doing a master's degree was funded by the European Social Fund, and we would need to assess what impact that has had. We could measure the number of scholarships, but we would also need to assess what those people went on to do and difference they made? Impact is a difficult thing to separate out.

Ms Morrice:

The Peace programmes would also have to be assessed. To carry out a cost-benefit analysis in economic terms on the value of supporting cross-community development is very difficult. Indeed, Brussels found that when trying to assess the role of the European Union in the Northern Ireland peace process.

Mr Smyth:

Some evaluations were done of that, but, without getting technical, the evaluation methodology is flawed, because it measures quantifiable outputs. So many of the outputs —

The Chairperson:

Whatever criteria or methods were used would be questioned by some source.

Mr Kinahan:

Michael, you mentioned that the EU might be looking for new revenue sources. Will you expand on that?

Mr Smyth:

There is talk of a levy on VAT as the main vehicle. Thus, a separate VAT rate would be levied on top of any national VAT rate, and that would go directly to Brussels. There would, therefore, be a Brussels tax, which would bring in substantial amounts of money. However, do not forget that that is entirely consistent with the Commission's view, because it eventually wants to harmonise VAT rates across the Union. It is desirable to increase price transparency because of the single market, never mind currencies.

Apropos currencies, although it is absolutely right that the pound exists for as long as we want it, I get the feeling that the world is moving rapidly towards currency blocks. The head of the World Bank calling for a return to the gold standard was a warning to us all. If you have been watching the exchange rate fluctuations in the past two and half years, as I sadly have, you will know that they have been staggering. There is a need for stability in the exchange rates. The pound is still a major currency, but for how long?

Dr Farry:

First, I apologise for being late and for missing the initial presentation and questions. I will try to bring a bit more Europhile balance to the debate; hopefully, Dolores chipped in earlier.

I wish to raise two points, to which either Jane or Mike may respond. First, as regards Northern Ireland's currency in the political sense, how long does it actually have? We are seen, rightly or wrongly, as a major success story in Europe because of the peace process. There is enormous interest and goodwill around the success of Northern Ireland. However, time moves

on, and other issues are looming that create a whole other dynamic, in particular the issue of eastern Europe and the accession of Turkey. Therefore, is there a sense that Northern Ireland is on borrowed time and that we must make the best of what is a closing window of opportunity?

Secondly, to what extent is the European Union regionalising? Some 10 or 20 years ago, the whole talk was about a Europe of the regions. However, since the economic crisis, there has been a slight return to talk about the nation state. Therefore, to what extent can we still talk about a Europe of the regions? In that sense, does Northern Ireland have opportunities for partnerships, sidetracking either Dublin or London, with other regions, be they Catalonia, Lombardy, Baden-Württemberg or wherever?

The Chairperson:

I think that Dolores wants to come in on that question.

Mrs D Kelly:

What is your assessment of the research and development opportunities that are being taken up but not on a departmental basis? I chair the Committee for Employment and Learning, and, on the back of the debate about student fees and payment for research, I have a particular interest in research and development innovation. Where might such opportunities exist? When the Committee visited the EU, I was struck by the fact that the Northern Ireland Office had four staff, whereas there were 147 civil servants from the South of Ireland and something like 187 staff from the UK as a whole. The lesson that we learned there was that relationships and meetings that were held outside the formal setting paid the best dividends.

Ms Morrice:

I will start with the question about borrowed time. I do not whether you were here for my response on the issue of conflict transformation.

Dr Farry:

No, I was not.

Ms Morrice:

I will not repeat that at length, but I will tell you that in the European Economic and Social Committee I am really trying to push the value added aspect of Northern Ireland, which is

conflict resolution and transformation. I totally believe in that, as does Europe. I have written an opinion on the EU role in the Northern Ireland peace process and have proposed that I write a second opinion on the European Union role in global peace building, possibly using the Northern Ireland model. You can, therefore, see that I am turning that around and getting it in there and that I am trying to push for, at least, the European Economic and Social Committee to consider it.

That is at the very early stages of getting approval, and it will hopefully be approved in the next few months. Of course, there may be some difficulties. For example, the Spanish and the Cypriots may say that they are not sure about the use of the Northern Ireland model. If that were the case, it might be easier to use only external models rather than an internal model. Therefore, on the issue of borrowed time, I think that we can take advantage of our conflict transformation model. That is very valuable to us, and it is where we still have currency. Using the task force for that, a conflict resolution centre here would be hugely valuable. We could make a real name for ourselves and give something back. I know that it is altruistic, but we have been receiving non-stop, so let us give something back.

I totally agree with what Mike was saying about the macro-regions. They will be to the fore. It used to be the building blocks that we talked about; now, it is about the co-operation of regions in each area. That is very important.

The task force report pointed out that we were not taking the opportunity to participate in the Erasmus programme. That is very interesting. My son is at the University of St Andrews in Scotland. He is about to go on an Erasmus year, and is confused as to how and where one applies. It is important that we start using it more, here in Northern Ireland, because students are not taking enough advantage of the scheme at the moment.

Mr Smyth:

There are thousands of Erasmus students in universities in Northern Ireland — certainly north of 1,000 — yet there are just a handful of kids from Northern Ireland in universities in Europe. That is a tragedy. Recently, I spoke with some people from the universities of Barcelona and Valencia, who would love to get students studying and working there. My problem is: where do I get them from?

I think that it goes back to the secondary curriculum. We seem to be retreating from

languages. We are not even getting Chinese on the curriculum, which is an absolute tragedy. However, we are talking about Europe here, and we should be teaching French and Spanish as a minimum. We seem to be closing language departments in schools — that is the road to nowhere. Let us face it, we are very fortunate to speak a particularly pure form of the English language here, but we hide behind it. It covers a multitude of weaknesses, but it is not the same in continental Europe; there, it is a priority that every child learns English.

As for political capital, I would go beyond the peace process. I think that the structural fund interventions at Brussels have been significant here. Brussels stands by, ready. Our political capital there is still high. We have not asked for anything recently. I think we need to arrive at a clear view of what we want from Brussels, articulate it, and get into a debate with the institutions there.

The Europe of the regions is alive and well; in fact, every member of our committee, including us, is from a region of Europe. It does not work without the regions. The latest configuration of that, macro-regions, is a good transformation. It is about trying to get better value for money. It is recognition that the Brussels Budget is not going to be growing, and that Brussels needs to get better value for money. Macro-regions seem to represent the way forward.

I am not going to dodge the question about research and development opportunities because I do not dodge questions, but it seems to me that it is inevitably bound up with foreign direct investment. You quoted a comparison with civil servants in the Republic. Again, I do not want to wander off the point, but, if anyone is interested, they can look at idairland.com, which is the website of the Irish Industrial Development Authority, and download a list of projects that they have attracted since January this year. That runs to 18 pages of a Word document. That represents 67 projects involving over 7,000 highly paid jobs that we did not get. I will not go into the reasons why, but we did not get them, and therefore the opportunities for R&D and innovation in American, European and Asian multinational companies is far more than it is here.

That is the fundamental reason, but there are also some successes here. I commend the FUSION project to the Committee, which tries to get universities in the South to help small businesses in Northern Ireland, and universities in Northern Ireland to help small businesses in the South. That is oversubscribed now.

There is every reason to expand that programme, which is oversubscribed, although where will we get the money? That is part of the wider knowledge transfer programmes (KTP), which have been very successful here. However, the Department for Business, Enterprise and Regulatory Reform is cutting back on KTP. That is madness. There are funding issues, but there are critical mass issues.

Ms Morrice:

Can I come in on R&D?

The Chairperson:

Very briefly.

Ms Morrice:

On renewable energies, Northern Ireland could be the Saudi Arabia of wind energy. Where are we? Is there enough help for Harland and Wolff in respect of turbines and for small businesses getting into that area? We are making a start there, but so much more can be done.

The Chairperson:

I do not want to wander too far into other Departments' areas, because Michael has criticised about every Department we have. I am afraid that other Committees will be coming after us. Many people who live in some areas of Northern Ireland think that far too many wind turbines are being put up at their back doors. There is an argument on the opposite side.

Ms Morrice:

The answer is to go offshore.

Ms M Anderson:

Just to return to the issue of structural funds, when Maurice Maxwell was here, he said that we needed to use that political capital that you talked about in Europe, because he believed that there would be an opportunity to tap into Peace IV or another round of structural funds. Michael, you also talked about the 1,000 students from Europe in the Six Counties, but only a handful from the North is in Europe.

Dolores has only recently taken over as Chairperson of the Committee for Employment and

Learning. In the past, has that Committee invited the like of you to see how, for instance, issues could be highlighted that with that Department to assist you with targeting particular areas, whether universities or secondary schools, to enable those sorts of opportunities to factor into the mindsets of young people as they are going forward? There could be an opportunity for other Departments to hear this evidence, whether it relates to renewable energy, or, in this case, students.

Mr Smyth:

The short answer is no, I have not been asked. Representations were made as part of a wider argument about corporation tax, and the policies that would be needed to assist that. I take the point, and will do whatever I am asked to do on this matter, because I feel passionately about it. Our representatives on the Committee of the Regions, and the MEPs, should be asked to lobby for that. Where else can you use political capital except where politics is done?

Ms M Anderson:

We had the MEPs in front of the Committee last week.

Mr Smyth:

It would be a real tragedy if we let that situation get any worse.

The Chairperson:

All other Departments will be having a go at us for allowing you to have a go at them. Anyway, that is fine. Thank you very much, Jane and Michael, for your briefing.