



# The implications of the European transition for key Welsh economic sectors

## Introduction

New trading arrangements between the UK and EU after the end of the European transition period will have a profound impact on the Welsh economy. The impact will be felt economy-wide, as well as individually for key sectors.

Our analysis is informed by our review of research literature, discussions with sector representatives from across Wales, and a roundtable discussion with experts.

The sectors we considered include some that have a proportionally larger presence in Wales than in the rest of the UK, such as aerospace and steel. Others, like agriculture and fisheries, have a distinctive profile in Wales. And some are considered strategically important.

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Although each sector will be affected in a distinctive way by new arrangements, there are some common themes. This policy briefing outlines some of the main concerns and opportunities we found. An overview of the situation for each sector can be found in our full [report](#). The text represents the situation at the time of publication.

## Areas of concern

**Preparedness** is a key issue with many sectors feeling less prepared for this transition than they were for previous Brexit deadlines. This is due to a combination of impact of the Coronavirus pandemic and a sense of 'Brexit fatigue' brought on by preparing for previous transitions.

This lack of preparedness could have an impact on sectors which currently depend on seamless border processes, such as agriculture, automotive and aerospace, particularly if new border and customs arrangements are not implemented in time for the changes in early 2021.

While tariffs will be an issue for some businesses, **non-tariff barriers** such as delays at the border and customs certification are expected to have a more substantial impact. These will be more problematic for businesses whose fresh produce may spoil; or where goods comprise different components or come from different nations, making certification more difficult. The new rules are likely to be more complicated and therefore many businesses may break them without realising it.

**Declining investment** is a concern for most sectors, and particularly for those with a lot of smaller businesses which have benefitted from EU funding in the past, such as agriculture and tourism.

In other sectors like aerospace and steel, making sure that investment and support for research and innovation is maintained could help reduce carbon emissions and encourage more companies to establish in Wales.

**Rules of origin**, where products can be exported without tariffs if they are mainly produced in the UK, will be a challenge in sectors where products are made up of different components coming from different countries, such as car manufacturing. This could have a big impact on profit margins and firms' ability to export, although many firms are not yet calculating the cost implications.

There is a lack of clarity about other issues such as product labelling and certification, how data can be accessed and stored between the UK and EU, and whether new migration rules will allow short-term cross-border work assignments. Each of these could negatively affect businesses.



## The UK internal market

The Internal Market Bill aims to make sure that products produced or imported in one part of the UK can be sold across the whole of the UK. However, it has been controversial because the original draft placed frictionless exchange between the four home nations above all other public policy aims and objectives, including devolution (Dougan et al., 2020). The Bill would also grant the UK Government new spending powers in various policy areas that overrides the authority of the Senedd, for example transport infrastructure.

Recent changes to the Internal Market Bill better acknowledge the devolution settlement, allowing exemptions from mutual recognitions agreements where this serves a public policy objective. However, the Bill still has the potential to undermine the Senedd's policy responsibilities, and greater clarity is needed.

It also gives a statutory basis for common frameworks and allows divergence from these in

certain cases. These may consist of common goals and standards, harmonisation and agreements on mutual recognition across different policy areas, as were called for by the Welsh and Scottish Governments.

The implementation of the Northern Ireland protocol will have implications for the UK internal market and for Wales. Recent agreements give tariff-free access for goods moving from Great Britain to Northern Ireland, via the Holyhead–Dublin route. However, a further agreement will be needed to ensure no new administrative burdens are added in the future.

## Potential opportunities

Trade agreements with other countries could bring opportunities for Welsh firms. For instance, if the United States removed barriers to exporting Welsh lamb it could benefit Welsh agriculture by opening up a new market.

New powers over state aid could help grow Welsh businesses and provide more opportunities for bringing innovative products to the market by permitting investment at all levels of the product development cycle.

Fisheries and agriculture could benefit from coming out of EU regulatory systems and reallocating fishing quotas and new models of farm support could support Welsh businesses.

Finally, some sectors already have good connections with non-EU trading partners and these could be maintained and strengthened, and relevant expertise could be shared.

## Recommendations

To support businesses through the transition we recommend that the Welsh Government:

- Guide businesses in the application of new regulations, once they are known.
- Encourage retraining and job creation in customs intermediaries, digital infrastructure, logistical and business support to meet increased demand.

- Continue to seek a beneficial framework for mutual recognition of qualifications and conformity assessment procedures as part of any free trade agreement.
- Maintain emergency funding for sectors affected by border delays, particularly in sectors which have a greater dependence on seamless border processes, including agriculture and fisheries, automotive, life sciences and aerospace.
- Collect data to understand what the impact of the Northern Ireland protocol will be on Welsh ports.

We also recommend the following measures to help Welsh businesses succeed in the medium term:

- Encourage collaboration between sectors whose interests might converge,

- like agriculture and tourism if farmers diversify into accommodation services.
- Encourage investment in R&D to support sectors reliant on innovation. For example, enhancing cross-sector innovation in sectors such as aerospace and steel to develop supplier ecosystems to contribute to decarbonisation.
- Target state aid to increase the competitiveness of sectors and strengthen existing procurement strategies to promote the use of Welsh goods and services across the UK.

## References

Dougan, M., Hayward, K., Hunt, J., McEwen, N., McHarg, A. and Wincott, D. (2020). **UK Internal Market Bill, Devolution and the Union**. Wales Governance Centre, Centre on Constitutional Change and UK in a Changing Europe.

## Find out more

For the full report see Johnson, C., Price, J., Tilley, H. (2020). **The implications of the European transition for key Welsh economic sectors**. Cardiff: Wales Centre for Public Policy

## About the Wales Centre for Public Policy

Here at the Centre, we collaborate with leading policy experts to provide ministers, the civil service and Welsh public services with high quality evidence and independent advice that helps them to improve policy decisions and outcomes.

Funded by the Economic and Social Research Council and Welsh Government, the Centre is

based at Cardiff University and a member of the UK's What Works Network.

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