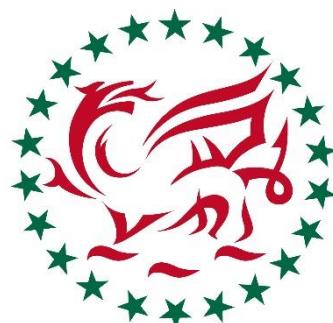




House of Commons Welsh Affairs Select Committee Brexit, Trade and Customs: Implications for Wales Inquiry

29th August 2018



CLILC • WLGA

Introduction

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities, the three fire and rescue authorities, and four police authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.
3. We welcome the opportunity to respond to the Welsh Affairs Committee's Inquiry into Brexit, Trade and Customs: Implications for Wales.
4. The WLGA is proactively and extensively engaged with its members on Brexit and its potential implications, both on Welsh Local Authorities and their localities.
5. The WLGA is also an active contributor in a range of fora, discussing Brexit and its potential implications at a national level, and also within specific technical working groups on specific sectors and issues – such as future trade policy and its implications on local infrastructure, economies, and regulatory arrangements.

Executive Summary

6. Local Government has a key role and interest in the potential local impact of post-Brexit trading and customs arrangements. Both in terms of implications to its statutory regulatory duties & responsibilities and in mitigating the impact of any changes upon the economies and workforce in their localities.
7. Depending on the nature of the “deal” struck (or no deal) between the UK and EU – there are a number of practical implications for Wales and from a Local Government perspective should the “classification” of goods imported from the EU be changed (i.e. if the UK would be recognised as a Third Country).
8. The issues raised within this response are indeed referenced within the White Paper, and recognises the key requirements that Port Authorities and Local Government require to maintain a frictionless border – whilst maintaining the necessary levels of scrutiny and assurance to ensure public health & security. As a set of principles therefore, we would welcome the approach outlined in the White Paper.

9. This response however, explores some of these key issues and highlights the potential implications should the Government's aspirations in the White Paper not be met, and if there were alternative arrangements required to conform to an alternative trading model.
10. The WLGA highlights its strong concerns of a "No Deal" scenario both in the operational capability of our current points of entry into Wales – and also more strategically in the longer term on the potential impacts on local businesses and the workforce.
11. Unless otherwise specified, reference to Ports should be taken to include both sea and air ports throughout the response.
12. The WLGA is committed to ensure the debate is progressed in Wales and with its Member Authorities as the agenda develops; and is currently working with its Member Authorities in Wales and the Welsh Government on delivering a Brexit Transition Support Programme for Welsh Local Authorities. There is flexibility built into our programme to enable amendments in terms of support required for local authorities pending the outcome of the current negotiations both in relation to the Withdrawal Agreement and the future relationship between the UK and the EU.

What are the main potential models for future trading and customs arrangements with the EU - including proposals in the UK Government's White Paper - and what are their implications for Wales?

13. Ever since the vote to leave the European Union in June 2016, there have been a number of potential models debated in discourse – ranging from close alignment to the EU's single market (Norway model), to a free trade arrangement (Canada Model) – to hybrid/more complex arrangements like the Swiss/Turkey models, to unilateral arrangements like the HongKong Singapore arrangement – with various models hypothesised in-between (e.g. "Canada Plus").
14. However, from our following of current discourse both at a UK and Welsh level, we believe there to be three practically likely models beyond our current arrangements with the EU (full membership of the single market):
 - **European Economic Area membership:** continued adherence to Single Market and Customs Union trade rules (EU preference) possibly via a 'Norway model' of payment for access to the Single Market and adherence to its rules, but no say over

them. This would mean no customs fees, with arrangements for trade largely the same as now. It would deal effectively with the 'Irish border issue' as both Northern and Southern Ireland would be in the Single Market and Customs Union

- **Bespoke free trade agreement (UK government preference – White Paper):** suggests a common rule book for goods and ongoing commitment to harmonisation with EU rules but with regulatory flexibility in relation to services. By working to common rules for goods UK Government believes there would be no need for customs and regulatory checks at the borders, nor customs declarations. It has proposed a 'Facilitated Customs Arrangement' (FCA) that it claims would remove the need for customs checks and controls. However, the EU has already indicated that it is unlikely to accept such an arrangement.
- **No Deal:** potential reversion to "World Trade Organisation" trading rules. However, this would not be automatic, is still subject to ongoing negotiation on the UK's status within the WTO's frameworks¹. With no agreement on the trade of goods, customs checks could be reintroduced at the borders, with the potential for delays (unless a policy of relatively free movement but with spot checks on a risk basis is adopted).

It is important to note the delineation between a Transition Period being agreed as part of the Withdrawal Agreement, or potentially no transition period in the case of a "no deal" scenario – and the extent of "agreement" on key aspects with the WTO on the status and ability of the UK to revert to certain trading arrangements or explore new trading deals with non-EU countries.

15. The implications for Wales will depend on the model that will be adopted, and the detail upon which the model is agreed – as different agreements (or variations of) will impact different economic sectors differently. Commentators and public discourse are already focused on the national (UK) impact of these possible trading models – however we expect that as the detail of a "deal" becomes clearer, beyond the current principles – the impact on individual sectors and localities will become clearer.
16. However, we can comment in general terms on the key implications that can occur – depending on the detail of the deal that is struck:

¹ <https://www.theguardian.com/politics/2018/apr/25/resistance-to-joint-proposal-to-wto-leaves-uk-and-eu-divided-us-australi-reject-brexit-trade-plans>

- **Increased tariffs on Goods:** If there is no deal, or a deal that would imply greater tariffs on goods/services exported to the EU. In Wales particularly, there is a growing body of evidence that such tariffs will have a detrimental impact on exports from both the agricultural² and fisheries sectors³. The Welsh Government has already produced a detailed analysis of the implications of Wales under different trading arrangements⁴.
- **Other “non-tariff” barriers affecting trade:** In any scenario outside of the current agreement or the Government’s White Paper – there could be a host of non-tariff barriers to trading of goods such as quotas, VAT, technical and customs procedural changes, changes to subsidisation of domestic industries etc. In the trading of services, a range of issues could arise in different regulatory frameworks, licensing, ownership and control of entities, visas for employees etc.
- **Reduced Competitiveness/Demand of Welsh Ports:** Any increase in checks/customs arrangements will have a direct implication on the attractiveness of Welsh ports for the movement of both goods and people. An arrangement that would see a soft border between Northern Ireland and Ireland could mean goods going from the South to the North directly into England/Scotland – thus bypassing Welsh Ports. In such a scenario, there will inevitably be a threat to the ports themselves and the employment they provide both within the local community and supply chains regionally.
- **Reduced Business Attractiveness/Investment:** there is a danger that anchor companies will reinvest in Continental Europe if tariffs/non-tariff barriers are introduced under a no-deal scenario which increase their cost base/operational capability. This would have serious knock-on implications for local economies with the potential for large scale job losses. Conversely, this could also impact the supply chains of domestic industries.
- **Food Security:** There are currently concerns within the retail and food sectors of the potential impact of any additional delays at Ports on food, in the event of a no deal – or a deal that requires additional checks on produce entering the UK.

² <https://www.nfu-cymru.org.uk/news/latest-news/nfu-cymru-responds-to-welsh-government-brexit-trade-paper/>

³ <https://fishingnews.co.uk/news/welsh-industry-could-be-left-behind-by-brexit/>

⁴ <https://beta.gov.wales/sites/default/files/2018-01/180202-trade-policy-the-issues-for-wales.PDF>

What should be the priorities for Wales in trade negotiations with third countries and how should Welsh interests be represented in these negotiations?

17. If a Norway model or bespoke model as per the White Paper were to be the outcome, the UK would not be allowed by the EU's rules to negotiate trade deals for goods with third countries.
18. Under the White Paper proposals, third country deals could be negotiated on services but the UK would not be able to enter into any until after the end of the transition period in December 2020.
19. If there is no deal, though, the UK could enter third party trade deals – on goods and services - from 29th March 2019.
20. A serious risk for Wales in a no deal scenario is that the UK government seeks to strike deals with countries that can supply low cost food and other products that undercut domestic suppliers as a result of lower standards. Therefore, a priority should be to ensure that standards in the UK are upheld and that no imported goods that fall below these (in relation to animal welfare and workers' rights as well as product quality) would be allowed in.
21. We refer again to the Welsh Government's analysis⁵, indicating that particular sectors of particular economic importance in Wales – would be vulnerable to any divergence/barriers to trade with the EU's single market.
22. It is vital that Welsh Government is represented in trade deal negotiations to ensure that Wales' interests are protected, and that relevant frameworks are put in place to ensure the full and active participation of relevant authorities, including Local Government.

What needs to happen to ensure the readiness of Welsh ports and businesses for new customs arrangements with the EU?

23. It is extremely difficult to answer the detail of this question, with the detail lacking on the future trade and customs arrangement. In the event of a deal that would see parity/alignment with single market regulation, we wouldn't see a need for many preparations. However, in the event of regulatory divergence (no deal, or a deal that

⁵ <https://beta.gov.wales/sites/default/files/2018-01/180202-trade-policy-the-issues-for-wales.PDF>

follows some regulations, but not all) there will have to be additional regulatory implications that will be required that will have a direct bearing on:

- **Port Infrastructure:** to accommodate new border controls and customs checks in the form of additional warehousing, and possibly increased parking space for freight due to increased transit times. Availability within the Port boundaries (& outside) will be a key consideration. That will have both a cost and resource impact on Port, Local Planning Authorities and other relevant organisations. Should additional infrastructure be required – there will be a direct impact on the resourcing of Local Planning Authorities.
- **Personnel:** to ensure sufficient and appropriate capacity to accommodate enhanced border controls and customs checks. Ensuring the adequate skillset and experience to ensure that standards are not compromised will be key. Dependent on the scale of new employment opportunities, it does have the potential to distort local labour markets and could lead to skills shortages. There will be an impact on local education & skills providers such as Further & Higher Education, Local Authorities and Regional Skills Partnerships.

24. On both the above issues – there are obvious cost and timescale considerations for all partners involved. Urgent clarity is required on the model and approach for a future trading arrangement – so that appropriate strategic planning and implementation of necessary preparations can be realised in time to enable a seamless transition.

25. In August 2017 the National Assembly for Wales' External Affairs and Additional Legislation Committee published a detailed review of the possible implications on Welsh Ports following its inquiry into the implications of Brexit for Welsh ports⁶ - it is apparent that nearly a year on from this report that the information available for relevant authorities to undertake the necessary strategic planning has not evolved to a sufficiently detailed point upon which to make concrete decisions. It should be noted that the extent of the anticipated impact will vary from Port to Port, dependent on the nature of the goods exported/imported.

26. Potential implications on transport of goods will be a major factor for a large number of businesses small & large. Both within the UK importing parts from supply chains, exporting products – to European transport and logistics operations. Shifts in business transport strategies will have a direct implication for transport policy. The impact of both

⁶ <http://www.assembly.wales/laid%20documents/cr-ld11158/cr-ld11158-e.pdf>

the current uncertainty on businesses investment decisions, and the potential modelled impact of tariff/non-tariff barriers to trade are outlined in detail by an analysis by Cardiff Business School for the Welsh Government⁷.

27. Partners across the public & private sector in Wales are currently lacking the necessary detail to enable adequate strategic planning, to determine the appropriate operational response required to meet future arrangements.
28. The UK Government has issued technical notices⁸ outlining the steps to be taken in the event of a “no deal” – however businesses and Port Authorities would need a timescale to implement a number of changes that will potentially come into effect overnight on the 29th March 2019. The extent of considerations for businesses outlined in these technical notices are significant – and cannot be effected in a short space of time. Whilst further clarity is welcomed, businesses and Port Authorities are faced with the reality of having to make necessary preparations for a scenario that might not come to bear.
29. – If the Withdrawal Agreement is agreed between the UK and EU, enabling an implementation period to come into affect from the end of March 2019, the duration of that implementation period will have to acknowledge the timescales for ensuring operational preparedness at our Ports – without compromising standards or safety. In the event of a no deal scenario – thus no implementation period, in practical terms, that would be a case for emergency contingency planning. Local Authorities are working with key partners via Local Resilience Fora in considering the potential implications of a no deal scenario, including the potential implications of disruption at points of entry into Wales via ports and airports.
30. The WLGA is committed to ensure that the planning for all scenarios is progressed in Wales and with its Member Authorities as the agenda develops; and is currently working with its Member Authorities in Wales and the Welsh Government on delivering its Brexit Transition Support Programme for Welsh Local Authorities. This programme will be amended accordingly pending the outcome of the current negotiations between the UK Government and the EU.

⁷ <https://gov.wales/docs/det/publications/180202-eu-transition-and-economic-prospects-for-large-and-medium-sized-firms-in-wales-en.pdf>

⁸ <https://www.gov.uk/government/publications/trading-with-the-eu-if-theres-no-brexit-deal/trading-with-the-eu-if-theres-no-brexit-deal>

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