



Llywodraeth Cymru  
Welsh Government

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# Securing Wales' Future

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**Transition from  
the European Union  
to a new relationship  
with Europe**

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This document has been updated since first publication to correct a small number of typographical errors.

# 1 First Minister's Preface

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**A majority in Wales voted to leave the European Union (EU) and the Welsh Government has been clear from the outset that this democratic decision must be respected.**

We are equally clear that the terms of exit must protect Wales' vital interests and should be capable of bringing together those who voted to leave and those who voted to remain. We do not believe that people were persuaded to vote leave with the intention that Wales should become worse off as a result, nor do we believe that this should be an inevitable consequence of leaving the EU.

Decisions taken in the months ahead will define Wales' economic and social interests for many years to come. Exiting the EU presents clear risks which need to be managed and mitigated and the Welsh Government has a responsibility to preserve and develop the country's prosperity. There will also be opportunities to think afresh about our policies and programmes, about how we work together in a changed United Kingdom (UK) outside the EU, and the potential to help businesses explore new markets around the world.

Politicians in Wales have no monopoly on wisdom and our perspective has been informed by extensive debate, not just within the National Assembly for Wales but beyond it. Our European Advisory Group draws on individual specialist expertise and the spectrum of political opinion as we consider detailed

questions. The Council for Economic Renewal provides a particular focus on the economic and business challenges. More widely, thought about Wales' future is informed by extensive and active debate across sectors such as agriculture, environment, Higher Education, the third sector, the creative sector, local government and others.

Departing the EU in no sense means that Wales will turn its back on Europe. Continued full and unfettered access to the Single Market is fundamental to our future. Our friends and neighbours in Europe will continue to be our friends and neighbours, and we need to find new ways of working together on our common challenges. Equally, Wales is a world-facing nation. We have a long record of trade and investment with North America, Japan, the Middle East and elsewhere. We embrace the world and its horizons, and where new trade opportunities open up, we will work with businesses to help our economy prosper.

This White Paper outlines Wales' key strategic interests and priorities as the UK prepares to leave the EU. We are working with the UK Government, Northern Ireland Executive and the Scottish Government with the

intention of helping shape a viable and consensual UK negotiating position. This White Paper sets out the broad aims of the Welsh Government for those negotiations. Throughout, the emphasis is on preserving and promoting prosperity while recognising the majority wish to leave the EU.

As we face the future many questions remain. The Welsh Government must approach its work in new ways and the UK itself must adapt and change. We believe that the UK's exit from the EU should be conducted through constructive negotiation based on mutual respect and shared long-term interests among European neighbours.

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**The Welsh Government is determined to protect this country's vital interests and the future prosperity of Wales.**

A white cursive signature of Carwyn Jones on a dark red background.

**Carwyn Jones**  
First Minister of Wales

## 2 Preface by the Leader of Plaid Cymru



Since the vote to leave the European Union, Plaid Cymru has advocated that the priority should be to secure and defend the Welsh national interest, in particular our economic interests.

Plaid Cymru outlined our desire for a formal Welsh negotiating position on EU withdrawal; for parties to collaborate on defining and promoting the Welsh national interest; and for Wales to secure as much common ground as possible with the other devolved administrations so that there is a 'Four Countries' approach.

Thanks to significant and constructive efforts through liaison between Plaid Cymru and the Welsh Government, these positions have been advanced, and will now become the policy of the government, and the position of a clear majority of Members of the National Assembly.

For Plaid Cymru, this document reflects our core principle that Wales has a democratic right to shape the kind of EU withdrawal that takes place.

Wales' role should be to influence any negotiations which take place, rather than simply accepting that EU withdrawal can be carried out without regard to the interests of Wales, Scotland and Northern Ireland.

It is therefore of crucial importance that the UK Government recognises in any negotiations that the UK is a multi-national state, not a single nation.

In promoting the Welsh national interest, this White Paper

solidifies the view of the involved parties that Wales should be able to benefit from continued participation in the European Single Market. There has been movement between the parties involved in terms of agreeing possible forms which this continued participation could take, with agreement being reached that this could include EEA and/or EFTA membership, and that it must avoid tariff barriers.

The document welcomes the contribution of European workers and migrants to Welsh society and our economy, and challenges the negativity which has been allowed to dominate political discourse. It upholds the principle of freedom of movement and is therefore consistent with full Single Market participation.

It further sets out a way for Wales not to lose out financially when EU funding ends. The document also clarifies that Wales could and should continue to benefit from a range of European programmes which are of benefit to our citizens.

On the issue of environmental, social and workplace regulations, a strong message is sent to the UK Government that these must not be eroded or discarded in the name of deregulation or ideology.

Crucially for Plaid Cymru, the document contains agreement

that withdrawal from the EU should precipitate a remodelling of the governance structures of the UK, a long-held belief within our party.

It also progresses the Party of Wales' calls for a more comprehensive international policy, as well as our key priority of retaining and enhancing vital links between Wales and Ireland.

Just as Plaid Cymru has worked in the name of Welsh national unity to develop this joint position, we are confident that the Welsh Government will continue to work with Scotland, Northern Ireland and other partners, to identify common ground, both ahead of and during any negotiations.

Regardless as to how people voted in the EU referendum, there should now be a sense of encouragement that Wales has a clear and articulate position ahead of forthcoming negotiations. Our national interests and needs are clearly expressed in this paper, and I have no hesitation in commending it to people in Wales.



**Leanne Wood**  
Leader of Plaid Cymru

## 3 Summary

This White Paper sets out the main issues which we have identified as vital for Wales as the UK moves to leave the EU. It has been developed by the Welsh Government in conjunction with Plaid Cymru through an official Liaison Committee<sup>1</sup>. The views of the European Advisory Group, appointed by the First Minister in summer 2016<sup>2</sup>, have played a helpful role in developing its content.

The Welsh Government will work constructively with the UK Government as the UK prepares to exit the EU and transition towards a different relationship with our European neighbours. Together with Plaid Cymru, the Welsh Government will speak for Wales to ensure that the terms on which the UK leaves the EU are not damaging to Wales' interests. In return, we expect the UK Government to take full account of the issues we have identified as vital to Wales' interests in forming

its negotiating position. In so doing, the UK will be pursuing outcomes which we firmly believe will be beneficial for the UK as a whole, as well as for Wales.

There are six key areas which we believe need to be addressed in negotiations: the Single Market and international trade, migration, finance and investment, constitutional and devolution issues, Wales' social and environmental protections and values, and transitional arrangements.

### **The Single Market and International Trade**

The Welsh economy is closely integrated into the EU Single Market and some two thirds of identifiable Welsh exports go to EU countries. Wales' success in attracting foreign direct investment over many decades is largely based on access to the EU market of more than 500 million customers. Analysis

shows that any significant reduction in access to the Single Market will be damaging, and the greater the reduction, the worse the consequences will be in terms of reduced or negative growth. We believe that full and unfettered access to the Single Market for goods, services and capital – including our key agricultural and food products – is vital for the forward interests of Wales and the UK as a whole and we urge the UK Government to adopt this as the top priority for negotiation with the EU. There are various ways in which this might be achieved. These might involve UK membership of the European Free Trade Association (EFTA), of which the UK was a member prior to joining the EU, and through this continuing to form part of the European Economic Area (EEA); or through a negotiated bespoke arrangement unique to the UK.

(below) Swansea city at dusk



<sup>1</sup> In the Paper, “we” should be taken to refer to both the Welsh Government and Plaid Cymru.

<sup>2</sup> <http://gov.wales/about/cabinet/cabinetstatements/2016-new/euadvisory/?lang=en>

## Migration

We acknowledge that a wish to address concerns arising from EU migration was part of what stimulated support for leaving the EU and that the UK Government sees migration as a key focus of the forthcoming negotiations. Equally, we recognise the very positive contribution EU migrants make to our economy and communities. The rights of EU migrants already living in Wales to remain should be guaranteed immediately and all who live here must be treated with equal respect. We call upon the EU to give a reciprocal guarantee to Welsh and UK citizens living in the EU. We believe that Wales will continue to need migration from EU countries to help sustain our private sector economy and public services. In our view, the key is to ensure that, apart from students and those who are able to sustain themselves independently, freedom of movement of people



is linked to employment. For students and researchers, we believe continued free mobility across Europe is in the best interests of Wales and the UK as a whole. Linking freedom of movement to employment should be complemented by rigorous enforcement of existing legislation to prevent exploitation of workers, particularly those in low-wage occupations.

## Finance and Investment

**In budgetary terms, Wales is a net beneficiary of EU membership, currently receiving about £680million in EU funding each year.**

Not only is this funding hugely important to Wales in terms of driving economic growth and jobs, it also enables the Welsh Government to leverage additional resources from both public and private sources. While the UK Government has largely guaranteed funding for projects agreed prior to 2020, it is crucial in the longer term that EU funding is replaced by a revision to the Block Grant. During the referendum campaign voters in Wales were assured that leaving the EU would not result in Wales being worse off and it is vital to public faith in political process that this promise is honoured. Replacement funding from UK sources must reflect



(above) European Investment Bank in Luxembourg

current EU funding for regional economic development in Wales, agriculture and the countryside. Significant investment in Wales is stimulated by a number of smaller EU programmes and we strongly believe Wales should continue to benefit from access to them from outside the EU. These include: Horizon 2020, ERASMUS+, Creative Europe and the Wales-Ireland Programme. We also set out why we believe the UK should remain a partner in the European Investment Bank.

## Constitutional and Devolution Issues

Withdrawing from the EU is a major constitutional turning point for Wales and the UK as a whole. Powers already devolved to Wales – agriculture, fisheries, regional development and environment, for example – will in future be exercised here without an EU regulatory framework. Similarly, reserved powers which would, in

principle, be exercised at UK level (for example, on international trade or competition) would have potential to impact adversely on devolved policies in Wales.

The current inter-governmental machinery will no longer be fit-for-purpose and new ways of working – based on agreements freely entered into by the UK Government and the three devolved administrations and subject to independent arbitration – must be developed. The scale of change demands that the UK itself be remodelled to energise a dynamic and decentralised future based on co-operation, common purpose, solidarity and workable, more federal, structures. We see preparation for departure from the EU as the starting point for a detailed debate about reform and change within the UK. We need sight of detail on the ‘Great Repeal Bill,’ proposed by the UK Government before we can develop an informed position on its implication for devolution in Wales. If, after analysis, it is necessary to legislate ourselves, in the National Assembly for Wales, in order to protect our

devolved settlement in relation to the Bill, then we will do so.

### **Social and Environmental Protections and Values**

The UK has been part of the EU for more than 40 years and a substantial body of legislation has been developed which protects Wales’ environment and social well-being. Clean air, water and beaches are all underpinned by this legislation. A range of rights and protections for workers limiting exploitation in the workplace, including, for example, the Working Time Directive, have resulted in safer working environments and better conditions for employees. The safety of products sold in our shops and a range of wider consumer protections have accrued from EU legislation. In the short term, the so-called Great Repeal Bill will preserve existing legislation in domestic law. In leaving the EU, we need to be vigilant and insistent that protections and standards which benefit our citizens and the well-being of society as a whole are not eroded.

### **Transitional Arrangements**

It seems increasingly likely that negotiating both the terms of our withdrawal and a workable, detailed future relationship with the EU may not be achieved within the limited timescale set for the Article 50 negotiations. Experience from elsewhere suggests that trade negotiation, for example, is necessarily complex and time-consuming. The scale of work required to adapt our legal, constitutional and institutional structures is equally complex and likely to require significant development time. We therefore believe the UK Government should seek agreement, as a matter of high priority within the Article 50 negotiations, on a transitional phase, after our formal exit from the EU, to avoid the chaos and uncertainty which would arise from a sudden ‘cliff edge’ departure. Leaving the EU does not mean leaving Europe and we believe negotiations should be based on good faith and mutual neighbourly interest.

(below) Three Cliffs Bay, Gower



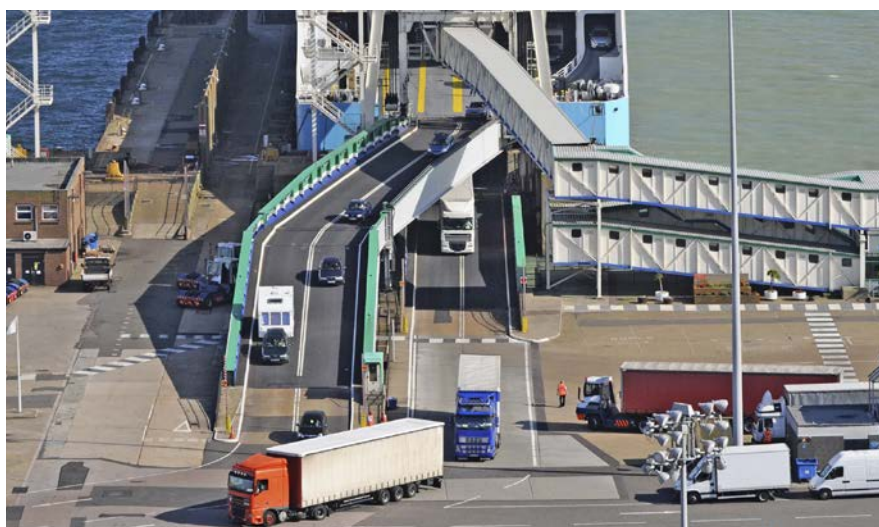
# 4 The Single Market and International Trade

## Economic impact of leaving the EU

The Welsh and UK economies benefit substantially from participation in the European Union Single Market. The latest HMRC figures show that exports to the EU account for around two thirds of all goods exported directly from Wales to destinations outside the UK. The attraction of foreign investment into Wales, a key economic driver since the 1970s, has been driven to a large extent by the fact that the UK offers a favourable cultural and regulatory environment within the Single Market. For this reason, we believe that continuing full and unfettered access to Europe's Single Market is vital to Wales' forward economic interests: throughout this White Paper we refer to that access as 'Single Market participation'.

The imposition of tariffs, and non-tariff barriers such as product certification and company registration, between the UK and the EU could only be damaging to business in Wales and the UK (see Annex A). No argument to the contrary exists. Indeed, the only serious point of discussion is the extent of the economic damage to Wales if this outcome were to materialise. Independent expert analysis of the impacts of exiting the EU on the UK as a whole share common findings:

- the overall economic impact is expected to be negative and significant



(above) Ferry unloading, Dover

- the scale of the negative impact is expected to be directly related to the degree of access to the Single Market that is retained after leaving the EU.

There is strong consensus among mainstream economic forecasters that replacing Single Market participation with World Trade Organisation (WTO) rules could result in a UK economy up to 8 – 10% smaller than would otherwise have been the case and would devastate trade in certain key sectors, notably food, the UK's largest manufacturing sector, and the automotive sector. This would have both immediate and long-term consequential impact on living standards and poverty in Wales.

We believe it is imperative to retain full Single Market access, without tariffs and non-tariff technical barriers, for trade and investment. Where no tariffs are applied to goods and services now, none should be applied in future. Where technical barriers

to trade have been overcome by regulatory convergence, this convergence should remain in place. It is for those who believe we should move from current trading arrangements to a worse position, for example, WTO rules, to justify why they think this is good for business in Wales and the UK as a whole.

The case for continuing Single Market participation is overwhelming and we can agree to no other position. There are various ways in which this might be achieved. These might involve UK membership of the European Free Trade Association (EFTA), of which the UK was a member prior to joining the EU, and through this continuing to form part of the European Economic Area (EEA); or through a negotiated bespoke arrangement unique to the UK. Continued Single Market participation means, of course, that the UK would have a continuing need to ensure that the domestic regulatory regime for goods and services





(above) Airbus Beluga on runway at Deeside

within the UK are compatible with those of the EU and that suitable dispute resolution arrangements are in place. We firmly believe that this is a price worth paying for the economic benefits which can only be secured by strong continued participation in the Single Market.

In many ways the economy in Wales is closely integrated with the wider UK economy. Unsurprisingly, in view of the importance of geographical proximity and a largely common institutional framework, Wales trades much more with the rest of the UK than with other countries. The value of trade flows between Wales and the rest of the UK, particularly England, is perhaps four times greater than the value of direct Welsh international exports<sup>3</sup>. Welsh goods sent to the rest of the UK will often form components in other goods that are eventually exported, although no reliable data is available for this.

The largest impact on Wales from any new trading arrangements that limit access to the Single Market would be felt indirectly through Wales' trading

links with the rest of the UK. For this reason, we believe it is essential that the whole of the UK should retain Single Market participation. Continuing to align our standards with those of the Single Market will not only protect our economic interests but safeguard the UK internal market as well. This issue is explored further in chapter seven.

Our principal argument for Single Market participation is to prevent the haemorrhaging of investment and jobs which would flow from a radical deterioration of the basis on which Wales and the rest of the UK trade with our key European markets. In addition, the imposition of barriers to imports from the EU would also produce negative effects including an increase in consumer prices in many goods and increasing the cost-base of goods and services dependent on imports. For example, more than 81% of our timber is imported, as is the majority of agricultural feed and fertiliser (which has a direct impact on food prices) and, of course, food itself.

Economic links are not confined to a few specific sectors. Direct exports from Wales to the EU are significant across a wide range of goods sectors including agriculture, steel, automotive, chemicals, electronics, aerospace, pharmaceutical, transport equipment and petroleum. Steel is a massive strategic Welsh and UK industry operating in a hugely competitive international market, and closely linked to EU markets and policy. Suggestions by some that individual sector by sector deals could provide the certainty, breadth or simplicity essential for businesses across Wales, and indeed the UK, are ill-evidenced and could be deeply damaging. The importance of primary production and manufacturing, and not just services, needs to be taken into account in defining appropriate Single Market access. Account must also be taken of indirect exports (goods supplied to English firms which are subsequently exported), services and imports.

It is also important to recognise that Wales is potentially more vulnerable to economic shocks than some other parts of the UK due to factors such as relatively low household income and a greater reliance on manufacturing. An economic downturn impacting on the UK as a result of EU exit could have a disproportionately high impact on the Welsh economy.

Moreover, in general terms, the lower levels of output in the UK economy as a result of a 'hard Brexit' would be expected to translate into lower tax revenue and greater pressure on the public finances, an analysis confirmed by the Chancellor's Autumn Statement. A departure from

<sup>3</sup> The true multiple may be considerably larger, given the low domestic value added in several major categories of Welsh exports, such as petroleum products (see below).

the EU which does not provide Single Market participation will almost certainly lead to even more significant cuts to public services in Wales, or to tax rises, or both, than would otherwise be the case. This underlines the need to ensure that Wales is compensated in full for the loss of European funding (see chapter 6).

## Transport

Transport is crucial to an effective local and global economy. EU policy development over recent decades has been focussed in key transport policy areas such as safer skies, seas and roads; more transport choices for travellers; passenger rights for air travel, rail, ships and buses or coaches; and technological progress towards cleaner transport and the reduction of harmful emissions into the environment. In addition, common standards for vehicles, driver licensing and driving tests for both professional and private drivers, and market opening for

road haulage services, have supported the efficient operation of the Single Market for goods and produce.

State aid and procurement rules are particularly important for transport, providing both a framework and a constraint for government intervention. Transitional measures in these areas must be workable in order for the benefits of transport schemes to continue for the people of Wales. The UK has led the discussion about EU transport liberalisation and we would not want any transport undertakings based in Wales to be restricted from entering the EU transport market place.

Over years the EU has developed a framework for enhanced passenger rights and compensation covering rail, bus and coach, air and sea (ferries and cruise ships). We wish to ensure that these benefits and reciprocal rights for passengers are maintained for Welsh and UK citizens after leaving the EU.

The EU has also led the liberalisation of air transport across Europe. This has created a number of ‘freedoms’ for EU-registered airlines which have allowed them to have a base in one EU Member State and operate services between other Member States. This has increased passenger choice and reduced the costs of travel significantly, and we wish to retain these benefits after leaving the EU.

Rail routes in Wales that are currently part of the core Trans-European Transport Network (TEN-T) are set to achieve European standards by 2030, including electrification and train length accommodation. The core routes comprise of the South Wales mainline to Milford Haven and the North Wales mainline to Holyhead. EU rail interoperability is key for Welsh regions if they are not to suffer disadvantages of peripherality, including unsustainable reliance on the road network as the only realistic means of connectivity.

(below) Second Severn Crossing



We wish to maintain rail passenger accessibility for people with reduced mobility, maintain technical interoperability with the European Rail area to maintain or improve Wales' manufacturing base, and maintain freedom for reciprocal EU and UK arrangements to allow participation in tender processes for franchises.

The Single Market creates free movement rights for both people and goods. Leaving the Single Market would mean policing new restrictions on the movement of people and goods, meaning checks on passengers and goods could be more onerous and resource intensive. This would impact on ports and airports as commercial entities, which would face

congestion due to the additional time required and additional costs. Should the land border between Northern Ireland and Ireland be treated differently from movement between EU Member States and the rest of the UK, this could impact on trade patterns and freight movement between UK and Ireland. If importers / exporters choose to move their products via Northern Ireland, this could disproportionately affect Wales, as proportionally more traffic to Welsh ports comes from Ireland compared to the rest of Great Britain.

### Continued overseas investment in Wales

Wales has a strong record of attracting inward investment from around the world.

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**Over the last three full financial years, there have been a total of 277 foreign direct investments by companies from 34 individual countries.**

These investments have created or safeguarded more than 27,000 jobs. Two thirds of these projects were from countries outside the EU and many were attracted to Wales because of our access to the Single Market.

Since the referendum, the Welsh Government has stepped up its international engagement, with missions to the USA led by the First Minister and to Japan

(below) Ringing the bell at New York Stock Exchange



led by the Cabinet Secretary for Economy and Infrastructure. In future, we believe it will be essential for the Welsh Government to invest even more resource and energy into efforts to promote Wales' commercial and wider interests abroad, not least to signal that Wales remains an open, internationally-engaged country. We call upon the UK Government and its international bodies – such as the Foreign and Commonwealth Office, the Department for International Trade and the British Council, to support us pro-actively in these efforts.

However, without Single Market participation, it will become increasingly difficult to convince potential investors interested in more than the UK market to locate new projects in Wales. Potential inward investment projects have been cancelled or put on hold pending greater clarity about the terms of the UK exit from the EU. The Welsh Government urges the UK Government to end this uncertainty by committing to Single Market participation as a key negotiation outcome.

### The Customs Union

While the case for ensuring Single Market participation is, in our view, overwhelming, the issue of whether or not the UK should seek to remain part of the EU Customs Union is more complex. While countries such as Norway and Iceland, which form part of the European Economic Area, are not part of the Customs Union (EEA), a bespoke agreement for the UK might potentially include this. Arguments for and against remaining inside the disciplines of the EU Customs Union may be marshalled in different ways.



(above) Vehicle queue at border control in Calais port

A customs union is characterised by two main features. It allows free trade in manufactured goods within the customs union and members agree to a common external tariff on imports from the rest of the world. Membership of the EU Customs Union<sup>4</sup> prohibits countries from negotiating other bilateral trade deals.

The main advantage of the EU Customs Union is that it provides free trade in goods with the 56 countries with which the EU has agreements (plus, most recently, Canada). This represents a substantial base of favourable trading relationships around the world for Welsh and UK exports. Studies show that the direct benefits of membership of the EU Customs Union are worth at least one percent of Gross Domestic Product (GDP), with indirect benefits significantly higher than that. For Wales to benefit fully from remaining in the EU Customs Union, it would be vital that primary agricultural and fisheries products were included within an agreement on the UK's continuation in the EU Customs Union.

An additional significant benefit of the EU Customs Union is that it accommodates complications around Rules of Origin requirements, which would significantly reduce cost and bureaucratic hurdles to UK exports which would otherwise apply once the UK has left the EU. Inside the EU Customs Union businesses benefit from avoiding bureaucratic costs and delays and through the hidden benefit of not being deterred from trading by customs barriers.

Against these advantages, remaining part of the EU Customs Union while no longer an EU member might require the UK to introduce tariff free access to the UK market for countries concluding new free trade agreements with the EU, without being immediately able to secure reciprocal advantages for UK exports. In principle, any possible disadvantage here should be strictly short-term.

<sup>4</sup> The EU Customs Union consists of all members of the EU and some of its neighbouring countries: Turkey and a number of EU micro states including Andorra, Monaco and San Marino. The EU has slightly different arrangements with each of the countries that form the EU Customs Union. For instance, the agreement with San Marino includes agriculture whereas the agreements with Turkey and Andorra exclude agricultural products.

It is argued that trade agreements with the largest global economies – the United States, China, India and others – have proven problematic for the EU, partly as a result of competitive scale. It is further suggested that the UK outside the EU might in theory be better placed than the EU to negotiate bi-lateral trade deals with these kinds of larger countries.

Of course, it cannot be known with any certainty at this stage whether the UK would in fact be able to negotiate such favourable bi-lateral deals with large countries. For us to support this view, compelling evidence would need to be presented that such potential benefits would outweigh the actual and current benefits of trading within the EU Customs Union.

At this point, we are unconvinced that the possible benefits of withdrawing from the EU Customs Union outweigh the costs. Participation to the Single Market is a critical requirement – all the available evidence suggests that countries generally trade more intensively with geographic neighbours and similarly developed countries – and participation in the EU Customs Union is a natural, though not essential, corollary of this. The EU Customs Union currently offers coherent export arrangements to many partner countries around the world and complications around Rules of Origin can only be viewed as disadvantageous. Where there is currently convergence in arrangements which help businesses export, we should aim to retain that convergence.

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## Policy Summary

The vital importance of EU trade to Welsh businesses and to the wider economy, underpinning the living standards of everyone who lives in our nation is clear. We cannot support an EU exit agreement that would leave the UK without continued Single Market participation. The EU Customs Union delivers benefits for Welsh business and the case for an alternative strategy has not so far been advanced with sufficient credibility or evidence. We believe at this stage that remaining part of the EU Customs Union, including for primary agricultural and fisheries products, remains the best position for Welsh and UK business.

# 5 Migration

Wales has benefited from inward migration from the EU and many other parts of the world. We believe that migrants make a positive contribution to Wales' economy and to society more widely. We regret and condemn the rise in xenophobia and racism exacerbated by the immoderate tone of debate in some parts of the political community.

We stand in full solidarity with all our people, irrespective of their country of origin and believe that the UK Government should already have made clear that everyone legally resident in the UK will have their rights guaranteed after we leave the EU. We call upon the UK Government to make a clear declaration along these lines to provide reassurance to EU citizens<sup>5</sup> living in Wales and elsewhere in the UK. We call upon the EU to make a similar declaration in respect of Welsh and UK citizens living throughout the EU. We reject completely any inference that the status of citizens with

legitimate rights of residence should be used as 'bargaining chips' in negotiations on the UK's exit from the EU.

Many sectors of the Welsh economy are dependent on the skills of migrants from the EU, for example:

- Some 1360 academic staff in Welsh Universities came from EU countries as at December 2014; any restrictions to the free movement of workers would severely impact Wales' ability to access academic talent and to engage in cross-border collaboration.
- The life sciences sector and the pharmaceutical industry are significantly dependent on EU citizens.
- The construction sector is heavily dependent on migrant workers, with serious skills shortages reported; the UK National Infrastructure Plan (September 2015) estimated that at least an additional 100,000 construction workers would be needed by 2020.

- The food and drink sector in Wales reflects the overall UK figures with over 25% of the labour force that is non-UK.
- Nearly 50% of veterinary surgeons registering in the UK qualified elsewhere in the EU<sup>6</sup>. Within meat hygiene services, it is estimated that more than 80% of the veterinary workforce is made up of non-British EU citizens<sup>7</sup>.
- The creative sector's ability to tour and operate in EU countries without regulatory cost barriers drives significant revenue in this important industry; recruitment and retention of staff from EU countries is vital to the sector's sustainability.
- In the health and social care sector, as of September 2015 around 1,140 EU nationals were employed in NHS Wales, with 6% of our doctors whose nationality was known having trained in other parts of the EU.
- Current figures suggest that the tourism industry in Wales employs around 11% of migrant workers, half of which are from EU countries.

(below) Morvus Technology, Abergavenny



<sup>5</sup> References in this chapter to EU citizens should be taken to mean EU or EEA citizens; and EU countries to mean EU or EEA countries

<sup>6</sup> Royal College of Veterinary Surgeons

<sup>7</sup> Veterinary Public Health Association

It is vital that different sectors in the economy are able to meet their recruitment needs where it has been demonstrated that the domestic labour market is insufficient.

Direct employment is a major, but not the only, concern related to migration. The ports of Holyhead, Fishguard and Pembroke Dock are the key arterial and logistics routes between the UK and Ireland. These ports also form important terminals on the Trans European Network, connecting Ireland with Europe beyond Great Britain. Ireland is consistently one of Wales' top export destinations, as well as a major investor into the Welsh economy, and our businesses and tourists, in both directions, depend on these routes.

Any changes to migration and/or customs rules would have an immediate and major impact at the Welsh ports. Cost, time, inconvenience and regulation would be added with negative consequences for both private and public sectors, and citizens. The ports could become less attractive commercially and businesses and tourists may be stimulated to seek other routes, driving negative economic consequences for the port hinterland regions more generally – in both Wales and Ireland.

Freedom of movement of people, the right of citizens to travel freely and without visas among European countries, essentially as tourists and for short-term visits, is surely a benefit worth preserving. This would be the case even if the EU did not exist. It can serve no positive purpose to impose needless barriers to

tourists, students and ordinary business travellers from European countries. Equally, the Welsh Government would regret and oppose the erection of barriers inhibiting ordinary travel by Welsh and other UK citizens in Europe. The retention, in this sense, of freedom of movement of people is good for business among neighbouring countries with shared interests and any suggestion of visas for ordinary travel between Europe should be firmly resisted as a backward step.

The Welsh Government recognises that concern about the extent and speed of immigration from the EU was a key concern in the referendum for many who voted to leave. Concern has also been expressed about 'benefit tourism' by EU migrants. As the research at Annex B demonstrates, the scale of EU migration into Wales is, in fact, relatively modest and only a small minority of EU migrants to

this country are not in work or are reliant on benefits.

Indeed, one clear impact of migration has been to increase the overall scale of the UK economy and therefore to increase tax revenues. Migrants will, of course, also add to the demand for, and hence cost of, public services. However, the evidence suggests that the economic growth effect is larger than the increase in cost, due in part to the average age-profile of migrants. While we support the reintroduction of appropriate funding mechanisms to support areas affected by increasing strain on public services as a result of high levels of in-migration, a 'hard Brexit' with drastic curtailing of EU migration would not only reduce employers' access to skills but also reduce economic prosperity and public spending over and above the negative impact

(below) Higher Education students © Renzo Mazzolini



flowing from lost access to the Single Market.

We believe that any future UK system for regulating reciprocal freedom of movement of people between the UK and the EU/EEA should be fair, transparent, non-exploitative and rules-based. In our view, the key to addressing concerns is to ensure that, for those who are neither studying nor have independent means, freedom of movement for new migrants from the EU/EEA into Wales is linked to employment. This might involve the prior offer of a job or the ability to secure an offer within a short time of arrival in the country. Such a managed employment-based approach would restore faith in migration policy and enable the UK to assert domestic control over migration while also retaining mobility of labour within Europe as an underpinning principle of the Single Market. We believe it would be possible for the UK

Government to devise such a system which is broadly compatible with the principle of freedom of movement of people, and in line with the practice of other EU and EEA member states.

Migration within the EU is not, of course, one-way traffic. Many thousands of Welsh and UK citizens choose to live, work or study in EU nations under the protection of reciprocal arrangements. This includes many retirees who have made a lifestyle choice in favour of European countries. In our view, individuals over retirement age with sufficient resources to live on (either from their pension entitlement from their home country or from their own resources) should continue to be free to settle in Wales, and, similarly, UK nationals should be free to settle in EU countries on the same basis.

Students have benefitted through ERASMUS + and other programmes which have created opportunities for them to study or undertake placements in European countries.

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**In 2014/15 there were 5,425 EU students and 18,805 other overseas students studying at Welsh Universities, with international students as a whole accounting for 18.2% of the total student body in Wales.**

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**International students and their visitors generated £530 million of export earnings in 2014, which is equivalent to 4% of all Welsh exports. This created 7,600 jobs and generated £400million of Gross Value Added over the same period<sup>8</sup>.**

We advocate the retention of reciprocal arrangements which enable EU students to study at UK institutions, and vice-versa, when the UK is outside the EU. We do not believe that students should be counted as 'migrants' for the purposes of national statistics.

In all cases, we believe that, as part of such arrangements, EU countries should fully protect the rights of Welsh/UK citizens in EU countries and that the UK should guarantee the same protections to EU citizens legitimately living, working or studying here.

We believe an intelligently devised migration approach should be underpinned by a strong culture of enforcement of legislation to prevent the exploitation of workers by unscrupulous employers seeking to undercut locally established wage rates and appropriate industry regulation. All workers in Wales and the UK, whatever their country of origin, must be treated equally and fairly according to law. We believe that an approach to migration along



<sup>8</sup> All figures; Universities Wales, 2015



these lines both recognises the concerns of Welsh voters while protecting the economy. We further believe that linking migration to work, under a transparent rules-based domestic system, is in keeping with the spirit of free movement of people in the Single Market and provides a sound basis for negotiation.

We believe it is also relevant to negotiations to note that Wales and the rest of the UK were open to migration from 'accession countries' immediately following the major expansion of the EU from 15 to 25 Members in 2004, while other EU countries (except Sweden and Ireland) remained closed to migration for a number of years after this date. This represented a strong demonstration of economic solidarity between the UK and the then accession countries and forms a significant backdrop to negotiations.

Competence for migration policy rests with the UK Government but, as part of our forward arrangements, the needs of public services and business sectors in Wales must be taken into account. Any rules must be based on clear principles and be accessible transparently to employers and public services. We are keen to work on proposals in greater detail with the UK Government and we call on them to act in the best interests of Welsh and UK business and society as a whole.

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## Policy Summary

We recognise that there are concerns around aspects of inward migration. We believe there is scope to address these concerns through a twin-track approach that maintains the benefits of migration for businesses and communities:

- ensuring a stronger link between employment and the right to remain for new EU migrants who are neither studying nor have independent means, an approach which we believe is broadly compatible with the principles of freedom of movement of people
- much stronger enforcement to protect low paid workers from exploitation.

It is morally and economically vital to protect the rights of citizens from EU countries who currently live and work in Wales. We firmly believe that all who live and work in Wales must be protected by law on an equal basis. We wholly reject any attempt to exploit migrant labour on inferior terms to domestic workers.

EU migrants make a valued contribution to our economy, public services and communities and must be treated with respect and equality.

We are clear, too, that any changes to migration policy should not harm businesses, higher education or public services in Wales. We believe students are not migrants and should not count towards national migration statistics. Full mobility for students and researchers across Europe should be retained.

The ports of Holyhead, Fishguard and Pembroke Dock are key economic arterial routes and the particular interests of those communities should be taken into account and protected in respect of any changes to border arrangements.

## 6 Finance and Investment



In total Wales receives around £680 million in EU funding annually. The bulk of this funding comprises receipts under the Common Agricultural Policy (CAP) and Structural Funds with the balance made up from Horizon 2020 and other smaller, but economically significant, pots of funding such as Creative Europe.

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### Unlike the UK as a whole, Wales is a net beneficiary of EU funding.

This means that the funding received in Wales is greater than the amount contributed by Welsh taxpayers via the UK's payments into the EU budget. EU funding benefits Wales by addressing need through a transparent and rules-based formula. We believe these principles must underpin the approach to replacement funding for Wales from within UK resources when the UK has left the EU. In recognising the referendum result in June 2016 we made clear our determination to hold to account the campaign promises that Wales outside the

EU would be not a penny worse off than it would otherwise have been within the EU.

The baseline of the Block Grant payment for Wales must be re-adjusted, at the point of exit from the EU, to reflect the real loss of funds in Wales arising from leaving the EU and taking into account funding which Wales would have otherwise reasonably expected from EU sources.

We recognise that continuing participation in the Single Market would require a financial contribution from the UK. Given the evidence on the extent of the benefits of trading freely in the Single Market we believe that an appropriate negotiated contribution would be clearly offset by the wider economic benefits to business and the Welsh and UK economy as a whole. The UK will no longer participate in the CAP and the main European Structural and Investment Funds (ESIF) programmes. We wish to remain eligible for smaller EU programmes as outlined elsewhere in this White Paper (Horizon 2020 and ERASMUS+,

for example) but these would require only modest contributions while the benefits to the Welsh and UK economy are significant.

### Regional economic development

Regional economic development is a devolved competence to Wales and is significantly underpinned by EU legislation. ESIF amounting to some £370 million annually are invested into Wales alongside the Welsh Government's own resources and other funding sources, including private investment.

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### The overall figures comprise **£295 million** annually for Structural Funds, **£80 million** for the Rural Development Plan and **£2 million** from the Maritime and Fisheries Fund.

These resources are vital to Wales. Since 2000, the investment of EU funds has helped to arrest the decline in Wales' economic performance and laid foundations for more sustainable prosperity, especially in the targeted West Wales and Valleys region. Among the benefits we have seen are:

- growth in employment in the West Wales and the Valleys region from 64.6% in 2000 to 70.7% in June 2016

- falling levels of unemployment and economic inactivity (from 30.8% to 25.2% in West Wales and the Valleys)
- increasing skill levels across Wales; between 2004 and 2015 the proportion of working age adults with no qualifications has fallen from 17% to 9.5% and
- investment in research and development has more than doubled since 2000, from £351m to £716m, driven by increased private sector investment, and keeping pace with UK averages.

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**Since 2007, EU funded projects have helped support nearly 73,000 people into work and 234,000 people to gain qualifications. They have helped to create nearly 12,000 businesses and some 37,000 jobs.**

The current ESIF programmes are worth more than £2.6 billion to Wales over the period 2014-2020, with the larger share allocated to West Wales and the Valleys and the balance to East Wales. These resources are hugely important to Wales in terms of driving economic growth and jobs. The programmes are investing over £1.2 billion towards boosting research and innovation, business competitiveness, increasing renewable energy and energy efficiency, and improving connectivity and urban development. This includes investments in major transformational projects such as the South Wales Metro which will help deliver a wider package of proposals and generate further investment under the Cardiff City Region and City Deal proposals.

In addition, around £860 million European Social Fund(ESF) will be invested in measures to help tackle poverty and increase social inclusion by supporting people into work and increasing skills (including among young people and the most disadvantaged). The funds

support 5,000 people a year into work and help around 21,500 people annually gain qualifications. The success of regional economic development is achieved most strongly at a micro-level in communities and we acknowledge the powerful contribution, through partnership, made by employers, local authorities and the third sector across Wales.

The European Agricultural Fund for Rural Development (EAFRD) covers over 600,000 ha of land and benefits some 1.3 million people across rural Wales. Investments include training for around 10,000 people and the creation of 860 jobs in rural areas. Our coastal communities benefit directly from EU funding in aquaculture and other competitiveness measures. The Welsh Government will continue to work with farmers, the rural communities and the fishing industry to map a dynamic future. Policy in Wales is complemented and underpinned by pioneering legislation in the ‘Well-being of Future Generations (Wales) Act’ which requires future investments in Wales to integrate policy objectives and adopt long- term sustainable outcomes.



The terms of EU exit negotiated by the UK Government could have a major impact on delivery of current EU programmes in Wales which may extend until 2023. The Welsh Government needs to be especially closely involved in this aspect of negotiation to ensure that it makes best use of EU funds and avoids sending any funds back.

Despite the successes of regional development policy, it is important that Wales' long-term challenges and disadvantages continue to be recognised as requiring dedicated and additional investment – with UK allocations to Wales reflecting the loss of EU funds – at levels equivalent to what Wales would have otherwise received through the EU. Regional economic development is a devolved area of policy and only the Welsh Government, working in partnership with local authorities, businesses and the third sector, has the strategic capacity to deliver micro economic development at community or regional levels. We will reject firmly any attempt by the UK Government to infringe this area of devolved competence.

### **Agriculture and Fisheries**

Welsh food and farming is directly threatened by any disruption to Wales' Single Market participation, given the high level of the EU's Common External Tariff on agricultural products.

Moreover, Welsh farmers and landowners currently benefit from around £274 million each year in direct subsidies under the CAP, while the fishing industry and Welsh coastal areas benefit from more limited funding from the Common Fisheries Policy (CFP). When the UK leaves the EU,



(above) Cockle Pickers, Gower

these funding instruments will cease to apply.

Wales' receipts from the CAP are significantly above the 'Barnett share' of UK receipts, reflecting the high proportion of Least Favoured Areas (LFAs) and the marginal nature and low incomes of much Welsh farming. Many farms are dependent on the support they receive to maintain viable businesses. While the work already underway with agriculture and environment stakeholders has started to identify ways in which the sector can respond to the challenges and opportunities created by EU withdrawal, including by strengthening supply chains and increasing added value, this re-orientation will take time and require resources. It is therefore essential that equivalent or greater resources to those Wales would have received from the CAP and CFP are provided from the UK to Wales to support Welsh farming and fisheries. Within Wales, the Welsh Government needs to address the substantial challenges of exiting the CAP and CFP through working closely with industry, communities

and other partners to create dynamic, forward-looking Welsh agriculture and fisheries policies. Food production is a major competitive advantage for Wales and it is vital that it retains and builds on its competitiveness, with a strong emphasis on export.

Securing resources is not only about supporting farming. With 83% of Wales' land surface being managed for farming and 14% for forestry, a separation between the management regimes for 'environment' and 'agriculture' is at best artificial. A crisis in Welsh farming would pose huge risks for maintaining the environmental resources of Wales. The countryside and coastline are essential to the heart of Wales and an asset for all our people. Our languages, our culture and many of our traditions as a country are sustained in the countryside and it is here that EU withdrawal may be most dramatically and quickly apparent. It is vital that rural interests are protected and feature strongly as Wales works towards a future outside the EU.

## Regional Aid – Competition Policy

Outside the EU new arrangements will need to be drawn up for managing the competition/state aid rules currently applied through the EU.

The Welsh Government must have the opportunity to exert real influence on the development of any new framework so that it can command respect and be seen to work fairly in the economic interests of Wales and all parts of the UK.

The ability to provide regional aid is vital if Wales is to remain competitive as an investment location.

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**In 2014, for example, large organisations accounted for just 0.1% of all enterprises in Wales, but provided 55.8% of all turnover and 41% of all employment.**

Regional aid both supports investment by indigenous companies and helps secure inward investments<sup>9</sup>. Diversification of the Welsh economy has been hugely assisted by inward investment: in 2015/16, 96 investment projects were recorded from 23 countries around the world, collectively worth circa £660 million to the Welsh economy.

Equally, we recognise that intelligent and rational regional aid policies must be

accompanied by transparent and fair competition policies in order to avoid ‘a race to the bottom’ among competing regions. A good deal of work remains to be done in this area and we call upon the UK Government to involve Wales closely from the outset.

## European Investment Bank (EIB)

The EIB is an active investor in the Welsh economy. Over the decades of EU membership hundreds of millions of pounds of EIB loans have been pumped into Wales. There is no equivalent body in the UK providing the same sort of investment funds at equivalent cost. While most of the EIB’s work is in Europe, it also supports projects across the globe, building up infrastructure and capacity for improved economic development.

The UK, as a member of the EU, is a 16% shareholder in the EIB. Under current rules, only EU Member States can own a share in the EIB. We believe the UK should negotiate to continue as a subscribing partner of the EIB. The EIB brings direct benefits to our economy as well as improving economic capacity elsewhere, thus helping the global trading environment which we support. The UK’s financial contribution to the EIB is loan capital and repaid, thus neutral in its impact on UK budgets.

There are additional benefits to Wales and the UK through access to the significant commercial expertise within the EIB. The South Wales Metro project, for example, benefits from the EIB’s commercial expertise informing the procurement process, while previous investments in Wales have, similarly, benefited from expertise and best practice offered by the EIB.

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**We strongly advocate that the UK should remain a shareholding partner in the EIB and that Wales should continue to gain from our direct relationship with the Bank.**

## Partnerships, Networks and Territorial Cooperation

Wales is an outward facing, globally trading nation and has attracted investments from across the world. Our universities and innovators work with partners throughout Europe and beyond. We want Welsh students to continue to have the opportunity to experience education in Europe (ERASMUS+ and Europass) and we want Welsh researchers to continue to collaborate in European research and innovation networks (Horizon 2020).

Wales has a particularly close co-operation with the Irish Republic, our maritime neighbour, through the European Territorial Cooperation (ETC) Programmes and we wish to maintain access to this joint working after the UK has left the EU. When the UK leaves the EU this form of co-operation will become, if anything, even more important and, in particular, we are committed to strengthening the relationship between Wales and Ireland. Wales especially needs to build prosperity around our key ports – Holyhead, Fishguard and Pembroke Dock – and protect their roles as the main arteries to and from Ireland and Wales (and, indeed, the UK as a whole).

<sup>9</sup> European Commission: **Ex-Post evaluation of the Regional Aid Guidelines 2007-2013**. Luxembourg: Publications Office of the European Union, 2013 – 194 pp. – 21.0 x 29.7 cm ISBN 978-92-79-28199-0 doi: 10.2763/32114

Wales has always been a strong supporter of the work of the British – Irish Council and, after the UK leaves the EU, we believe it will be important to intensify joint working at a strategic level between all parts of these islands through this body.

Cross border collaboration in research and development, principally through the Horizon 2020 programme at present, is particularly important and should continue after the UK has left the EU. EU programmes provide opportunities for businesses to collaborate with each other and work together towards common goals, often for societal benefit. Wales and the UK as a whole have been major beneficiaries from EU Research and Development Programmes, which are open to other non-EU member-states, provided they make a financial contribution. We want Wales to continue to access these programmes.

Wales has been particularly active in the ETC programmes, attracting funding of around £7.3m per year.

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## **Under the 2007-13 programmes, this involved participation in 94 co-operation projects bringing almost £35m of EU investment to Wales.**

Moreover, Wales participates in a whole range of other partnerships and networks (membership of which is often extended to European countries outside the EU) enabling us to build links with partners to share best practice and to undertake collaborative work. This style of collaboration



(above) Dr Who Tardis in Cardiff Bay

has been key to Wales' positioning as an active and respected partner in Europe and to securing investment. The Creative Sector, an industry in which Wales has increasingly a natural comparative advantage, has particularly flourished through access to cross-border EU programmes. It is essential that this engagement continues after the UK exits the EU and that Wales retains a platform from which to project outward facing strategic priorities in Europe.

Wales also benefits financially, culturally and economically through active participation in the ERASMUS+ programme. During 2014 alone over 2,000 participants were involved in Welsh international exchanges and in 2014 and 2015 combined, Welsh organisations secured around £10 million of funds across 86 projects.

ERASMUS+ provides valuable life-skills and international experience to help participants develop personally, professionally and academically as part of today's global economy. As well as boosting skills, employability and salary<sup>10</sup>

prospects for participants the international experience gained through studying, volunteering or working aboard provides a boost to participants self-confidence, helping them to stand out and succeed in the job market. We believe that Wales and indeed the whole of the UK should continue to participate in international exchanges such as ERASMUS+ and its successors after the UK leaves the EU: our proposed approach to migration in chapter five would support this ambition.

We want the UK to negotiate continued participation in the Creative Europe programme. This supports co-operation in the cultural and creative sector and Wales has derived significant benefit, with good return on investment, over recent years. A number of Welsh language projects, for example, have been able to collaborate successfully with European partners through this programme. Broadcasters have been able to access funds – and wider audiences – through European co-operation in a way which would not be possible within an exclusively UK context.

<sup>10</sup> The UK Higher Education International Unit reports that students who study abroad are less likely to be unemployed and earn more on average than those who don't go abroad during their degree.



(above) Higher Education students © Renzo Mazzolini

Leaving the EU does not require that Wales turns its back on Europe – and we have no intention of doing so. On the contrary, we are clear and determined that Wales will continue to pursue its priority mutual interests with European friends and neighbours from a new position outside the EU. We wish, too, to remain engaged with existing European networks and bi-lateral links and we will remain open to forging new and deeper relationships in pursuit of Welsh interests. Beyond Europe, we remain committed to our Wales for Africa programme and an appropriate Welsh voice on global citizenship. We are committed to developing an even more active policy of international engagement. Developing and further enhancing our effort to promote Wales internationally for trade and investment is an important priority.

### Higher Education

Universities are among Wales' and the UK's greatest institutional assets, and the terms of UK exit from the EU should do nothing to undermine that. Demand for places at our universities makes a significant contribution to Welsh exports as well as building long-term good will and recognition for Wales.

Researchers and academics operate in an internationally competitive 'market' and our institutions risk becoming isolated if we do not participate at a European level. Since universities are at the forefront of innovation there is also plainly a wider economic benefit in retaining access to European programmes.

There are currently more than 5,000 EU students at Welsh Higher Education institutions and we regret that this level seems certain to drop as a result of the referendum.

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**The total value to exports from international students as a whole in Wales is estimated to be around **£530million**<sup>11</sup> so any decline in international numbers damages Welsh exports.**

We believe it is misguided and inaccurate to count students in national migration statistics and that this leads to artificially inflated figures. In our view, students are plainly not migrants in the commonly understood sense of the word. They come to Wales for a time-limited period and for

<sup>11</sup> The Impact of Higher Education in Wales; Universities Wales, October 2015



the specific purpose of study, after which most leave the country. While they are here they represent no drain on the public purse. On the contrary, they pay fees, which count as exports, and sustain themselves financially while contributing to the local host economy.

Science, research and innovation capability is important for Wales and the UK. Research in Wales will be severely affected through reduction in income, an exodus of researchers and the failure to attract new talent if Wales does not continue to participate in Europe-wide research programmes. We look to the UK Government to provide assurances that current levels of investment in EU science programmes will be maintained, alongside the free movement of researchers which would be achieved by the policies advocated in chapter five of this White Paper.

We advocate that the UK Government should seek to ensure continued participation in Horizon 2020 and its successor programmes. This should include the ability for UK Universities and research partners to co-ordinate projects funded by these programmes. There are fundamental advantages to coordinating international collaborations, and losing this capacity would diminish and isolate the Welsh and UK research landscape.

Specifically, our main demands in relation to maintaining the excellence and economic importance of universities in Wales are:

- maintenance of engagement in Horizon 2020 and other EU led research schemes
- reciprocal arrangements regarding student tuition fees so that Welsh students studying in the EU pay local student fee levels and EU students studying in Wales are treated as UK students for the purpose of fees and the costs of study
- continued participation in the ERASMUS+ scheme of staff and student exchange
- guarantees regarding the visa and citizenship status of EU nationals working in UK universities
- not counting students on national migration statistics
- participation by Welsh universities in the work visa scheme currently being piloted in four English universities
- active promotion of greater outward mobility by students and staff studying and working in Welsh universities.

## Policy Summary

Wales currently benefits from around £680 million of EU funds annually. The Welsh share of CAP and regional development funding is based on need and rules set out in EU legislation, and is significantly greater than the proportion of UK Government expenditure used in the Barnett formula. In other words, Wales (unlike the UK as a whole) is a net beneficiary of EU funding.

Wales must receive funding after 2020, when the current EU multi-annual financial framework expires, which it would have reasonably expected if the UK were to remain in the EU. The UK Government must make good the promises made during the referendum campaign that Wales would not lose a penny in funding as a result of leaving the EU.

We believe the UK should continue to participate in key European programmes open to non-Member States, notably Horizon 2020, ERASMUS+ and Europass, ETC, Creative Europe and their successors after 2020 and that Wales should seek to raise its international profile to counteract any impression that leaving the EU is a sign of a move towards isolationism.



## 7 Constitutional and Devolution Issues

**Withdrawal from the EU represents a fundamental constitutional change for Wales and the UK as a whole. Returning to pre-1973 practice is simply not an option since devolution was not then part of the UK's political structure.**

In any case, any Government seeking to heal the deep divisions brought to the fore by the referendum and wanting to reconcile people with differing views, rather than alienate them, will surely want to provide an impetus to develop a fresh sense of purpose underpinned by new collaborative ways of working to reflect common interests.

The Welsh Government has advocated for some time the

establishment of a Constitutional Convention to review constitutional arrangements and practice within the UK and we believe that the scale of change which will flow from leaving the EU demands that the UK is remodelled around new, more federal, structures.

Currently a range of powers already devolved to the National Assembly for Wales and the Welsh Government are operated within an EU regulatory framework. These include agriculture, fisheries, environment and economic development. At the point of UK exit from the EU, when EU regulatory and administrative frameworks cease to apply, these powers will continue to be devolved in Wales. Similarly, a number of reserved powers in which Wales has an active interest, and which directly impact on devolved policy areas, such as competition policy, employment law and international trade, will continue to be the function of the UK Government and

Parliament, unless and until there is agreement to further change to the devolution settlement, which we regard as a work in progress. We advocate that these changes require a new approach to the UK's governance structure that reflects the interdependencies and interests between devolved and non-devolved.

We recognise that in some cases, in the absence of EU frameworks which provide an element of consistency across the UK internal market, it will be essential to develop new UK-wide frameworks to ensure the smooth working of the UK market.

We stand ready to play a very active part in developing such frameworks subject to several principles in respect of devolved policy areas:

- the free consent of the three devolved legislatures and administrations to participate on equal terms with the UK Government, representing the interests of England
- a model which retains at least the current levels of flexibility to implement policies tailored to the specific need of each nation

(below) The Senedd, Cardiff Bay



- robust, and genuinely independent arbitration mechanisms to resolve any disputes over the compatibility of individual policy measures in one nation with the agreed frameworks.

This will require wholly new inter-governmental machinery for

- enabling UK wide frameworks for devolved matters where the four administrations agree that a common approach is needed; and
- ensuring robust shared arrangements in respect of matters that are not devolved but which have major implications for devolved functions.

### Environment and Rural Affairs

The constitutional implications and challenges of EU exit are particularly acute in the field of environment and rural affairs. These policy areas are all significantly devolved and over the 17 years since devolution began there has been significant divergence of policy direction between the different parts of the UK.

The details of the impact on these areas are set out in chapter 8. They illustrate the case for the wider recognition of the need for a clear UK governance structure that reflects the interdependencies and interests between devolved and non-devolved. The clear need is for a regulatory framework that enables us to support progress, meet challenges and drive forward economic and social outcomes, while respecting devolved competences.



(above) Snowdonia

### Inter-governmental relations and reserved policy: Welsh Government and UK Government working together outside the EU

This White Paper underlines the crucial importance of areas such as international trade negotiations and competition policy, which are currently reserved to the UK Government, but which will have major implications for devolved functions and for the prosperity and well-being of Wales.

Managing these policy areas will require much more serious and intensive inter-governmental mechanisms and governance structures than those currently in place. The Welsh Government is seeking new and robust arrangements to meet our needs and safeguard our interests within a new UK political and constitutional landscape.

For example, if the UK leaves the Customs Union, and pursues an independent trade policy, it is conceivable that new free trade arrangements with countries such as New Zealand or Argentina could have very major direct effects on the

resilience and sustainability of Welsh agriculture and rural communities. It is essential that such matters are not regarded as being exclusively in the remit of the UK Government and Parliament. Robust and transparent mechanisms need to be established to identify potential impacts in advance of agreements being entered into and to enable appropriate action to be agreed in response. In cases where there is a very major impact on devolved policy areas and where the Devolved Administrations are not in agreement with the action the UK Government proposes to take, there must be independent mechanisms to resolve disputes.

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**We believe that government machinery models can and should be created which will meet the forward governance challenges for the UK.**

For example, we believe that the existing Joint Ministerial Committee (JMC) could be over-hauled and rebuilt into a UK Council of Ministers covering the various aspects of policy for which agreement between all four UK administrations is required. The Welsh Government is very ready to be active in further thinking about how the UK develops binding and inclusive decision-making processes outside the EU.

### **Legislative continuity and the devolution settlement**

The UK Government intends to introduce a 'Great Repeal Bill' to preserve EU law in the UK, at the point of exit, as it currently applies. Depending on its precise provisions, this Bill may require the legislative consent of the National Assembly for Wales. The effect of the Bill would be to leave EU legislation in place in Wales, until the Welsh or UK Government (depending on the competence) decides what, if any, changes to make.

We agree with the UK Government's view that it is essential to provide legislative continuity at the point at which the UK leaves the EU, and we understand that this is the principal aim of the proposed 'Great Repeal Bill'.

However, we are concerned that this is potentially an enormous task, given that much of the legislation, particularly directly applicable EU regulations, is not easily translated into a context where EU institutions no longer have any authority. Further, the Bill may significantly impact, intentionally or not, on the legislative competence of the National Assembly for Wales, and our core standing policy is that the UK exit from the EU must not result in devolved powers being clawed back to the UK Government. Any attempt to do so will be firmly resisted by us.

We await sight of the detail UK Government's Bill to inform further thinking about whether the Parliamentary Bill adequately reflects the devolution settlement. If, after analysis, it is necessary to legislate ourselves in the National Assembly for Wales in order to protect our devolved settlement in relation to the Bill, then we will do so.

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## **Policy Summary**

In areas of devolved policy, particularly where significant changes are required after the UK leaves the EU, there must be mutual respect for the differing roles of the four Governments. Any UK wide frameworks must be based on common consent by all four Governments. They will need robust and independent dispute resolution mechanisms. The current JMC machinery will not be adequate for what should be seen as 'pooled sovereignty' within the UK for agreed areas of common interest. Policy areas which are not devolved, but which have major implications for devolved functions, notably international trade negotiations and competition policy, should also have robust shared sovereignty arrangements. We need sight of detail on the 'Great Repeal Bill' before we can develop an informed position on its implication for devolution in Wales. If, after analysis, it is necessary to legislate ourselves in the National Assembly for Wales in order to protect our devolved settlement in relation to the Bill, then we will do so.

It is clear that leaving the EU is a fundamental constitutional change for the UK, one which requires imagination and vision to stimulate new ways of joint working among administrations outside the EU.

# 8 Social and Environmental Protections and Values

## Overview

Since the UK joined the EU in 1973, there has been great progress in developing minimum standards for vital quality-of-life issues such as the environment, rights at work and equalities. We acknowledge and pay tribute to the tireless work of the disability movement, equalities campaigners, environmentalists, trades unions and others in helping, through concerted action at EU level, to develop the quality of life for everyone in our country. We strongly believe that leaving the EU must not be an excuse for diluting or rowing back on standards which have improved the lives of our citizens.

The proposals to provide legislative continuity after we leave the EU, discussed in chapter seven, mean that the Welsh Government will have new opportunities and new policy choices to make in these areas, enabling Wales to protect

frameworks created by the EU, or to replace them with alternative approaches tailored to Welsh needs. As noted previously, in some areas the Welsh Government may wish to discuss joint decision-making with the UK Government and the other Devolved Administrations on common UK wide frameworks, where we believe that will be in Wales' best interests.

## Natural Resources

Wales is proud of the progress it has made on environmental outcomes and it should be recognised that the UK as a whole benefits from environmental goods and services and wider public benefits provided by Wales, for example, in terms of access to clean water and renewable energy resources. Many of these benefits have been the direct result of EU legislation and funding, including delivery of Wales' global sustainable

development goals. There is a continuing need to ensure Wales can deliver against international obligations. We are committed, for example, at a minimum, to maintaining current standards in respect of air and water quality, emissions and environmental protection.

In particular, we are committed to the principle of using 'green growth' as a means of fostering economic growth and development, which is socially equitable and ensures that natural resources are sustainably used and managed.

Examples of green growth include:

- Moving towards a more resource efficiency, circular economy
- Supporting the sustainable management and growth of Wales' natural resources based sectors – farming, forestry, fisheries, tourism and renewable energy



- Developing high value markets for new and innovative products and services based around sustainable management.

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## Wales' natural resources have a central role to play in the Welsh Government's delivery of green growth as their effective management is key to the delivery of Wales' seven statutory well-being goals.

Our ability to ensure the continued evolution of the policy and regulatory framework to support green growth is key – and as noted in chapter six, will depend on making good the loss of funding to the land-based sector which will result from exiting the CAP.

The EU currently provides both the direct legislative framework (EU Regulations and EU Decisions) and also centralised administration and operations

for directing policy. For example, in relation to chemicals, the EU Regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals provides the directly applicable legislative framework with much of the administrative support supplied by the European Chemicals Agency. This Regulation has acted as the driver for setting standards at an environmental level as well for production.

Some EU legislation which currently applies in Wales puts in place requirements necessary for animal / human health protection and food chain security. We will need to uphold these requirements and standards regardless of EU obligations to avoid significant risk to the general public, to the future environment and to the Welsh economy.

In order to ensure that the Welsh Government can continue to manage Welsh fisheries once the UK leaves the EU, changes are needed to the devolution settlement. Management of fisheries is devolved to Wales through the Government of Wales Act and the UK Concordat. The Welsh Government is responsible for managing and regulating aquaculture, intertidal, commercial and recreational sea fisheries throughout Wales, including its territorial seas and the Welsh Zone. The devolution



(above) Doctors, Ystrad Fawr Hospital, Caerphilly

settlement will need to change to provide full executive and legislative competence to enable continued management of fisheries across the Welsh Zone, and Welsh fishing businesses wherever they are. In addition, a fairer rebalancing of UK fishing quota is needed. Currently, small vessels, making up the majority of the English and Welsh fishing fleet, have access to very little fishing quota. In Wales, the under 10metre fishing vessels (around 426 vessels) makes up about 90% of the Welsh fleet, but have only 3% of the total UK fishing quota in Welsh areas of interest.

### Food and Drink

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## Wales needs to retain its strong 'brand' underpinned by high standards and the quality of its produce.

The reputation that has been built for Welsh produce, in particular its food and drink, is based on a number of factors, including human health protection, effective animal disease control, environmental





standards, the use of protected food names and high standards of animal health and welfare. These are currently assured within an EU framework and this will provide the foundation stone for our forward ambitions for this vital sector.

### Health

A range of reciprocal health care arrangements apply to Welsh and UK citizens travelling and living in Europe, and vice versa (some of which pre-date the UK's EU membership and apply on a bi-lateral basis). We believe it is in the general interest of Welsh and UK citizens for such reciprocal arrangements to continue where possible, based on mutual interest and respect for the integrity of individual national health care arrangements. The NHS, and indeed the health services of EU countries, should be protected from illegitimate exploitation.

As set out in chapter five, the NHS forms a significant area of our forward thinking on migration issues. The contribution of EU nationals to NHS Wales is vital,

and we anticipate a continuing demand for recruitment of doctors, nurses and other health workers from within the EU in future. We call upon the UK Government to work with us to develop an approach to migration which avoids damaging NHS Wales.

### Employment and Social Protection

We believe that the current suite of employment protections, such as maximum working hours under the Working Time Directive, are crucial to the maintenance of the economy and society that we want to promote. Exit from the EU must not lead to 'a race to the bottom' in workers protection based on the fallacy of promoting competitiveness. That route can only lead to low wages, job insecurity and discriminatory practice, the result of which would be felt not only in the prosperity of Wales but also in the delivery of social policy.

Employment protections provide the mechanism by which

individual workers can secure a fair return for their productivity and thereby access to goods and services. We want to see a prosperous Wales based on fairness, decency and social justice. The EU referendum itself highlighted the extent to which many people felt that, despite the legislation in place, and the high rates of employment, their lives were impoverished by insecure work, low wages and poor working conditions. As noted in chapter five, we believe that stronger enforcement of existing protections is a vital part of addressing these concerns which have also manifested themselves through worries about migration.

We are deeply concerned at the potential for exploitation of low paid workers, including migrants. We advocate that a vital part of the UK Government response to EU withdrawal should be to ensure vigorous enforcement of existing legislation, such as the Minimum Wage and health and safety legislation, to protect the rights of vulnerable workers. We note that in recent years there have been severe cuts to the budgets for the Health and Safety Executive, while the UK Government has confirmed in Parliament that a limited number of staff is employed to police the Minimum Wage legislation.

We also call upon the UK Government to engage actively, before the UK leaves the EU, with the discussions within the European institutions about reforms to the Posted Workers Directive to reduce any opportunities for employers to use this to undermine social protections.

## Procurement

We believe that, to the extent a new settlement with the EU enables the UK to move away from EU procurement rules, it is essential that the Welsh Government secures full control of public procurement policy for application across the Welsh public sector. This should allow a rethink of current limitations to using procurement proactively as a tool to generate local economic activity and may enable us – where it represents value for money to do so – to keep public sector expenditure in Wales.

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**Wales based suppliers currently win 55% of the annual £5.5bn public procurement expenditure.**

A new set of rules which consider the total cost of contract decisions could enable this figure to be further increased, supporting jobs and acting as a catalyst for Wales' future industrial and economic strategy.

The current procurement legislation also provides a definition of disadvantaged workers and supported businesses to which contracts may be reserved. With full control over procurement policy, this definition could be reviewed to ensure that it accurately reflects the demographics of Wales' population, driving further benefits for people in Wales.

## Equalities

We need to consider in detail the implications for equalities of exit from the EU and will develop dialogue with the Equalities and Human Rights Commission to take this forward. In particular, consideration must be given to the potential impact of the loss of EU funding for equalities and the well-being of people with protected characteristics. Our guiding principle is that leaving the EU should in no way reduce our focus on promoting equalities and challenging discrimination wherever it exists. In addition, in line with Article 12 of the United Nations Convention on the Rights of the Child (UNCRC), we will listen to the views of children and young people as the decisions made will be critically important for their future.

## Consumer Protection

We do not believe that it is in anyone's interests that Welsh consumers should be exposed to sub-standard goods and we believe that continued integration with the EU regulatory environment, necessary to retain Single Market participation, would also have the benefit of retaining current consumer protections. We need also to recognise that any radical pursuit of free trade agreements with third countries with much lower standards of consumer protection – in order to compensate for losing access to EU markets – could potentially pose serious risks to consumers within the UK.

## Policy Summary

We remain committed to the important social, environmental and employment protections which have been secured through EU membership. These must not be undermined after leaving the EU. In particular, there must be no rolling back of employment rights and protections for workers, which have improved significantly over the last couple of decades as a result of action at an EU level. There must also be a proper, effective and transparent UK framework to provide legal underpinning for effective regulation of issues such as environment, agriculture and fisheries which are heavily governed by EU law.

## 9 Transitional Arrangements

There is increasing recognition that the two-year window available to conclude negotiations under Article 50 of the Treaty on European Union – which must include time for any ratification processes, including European Parliament consent – may well prove too short to enable the UK to conclude successfully a withdrawal agreement and a new trading relationship with our EU partners. Businesses have made clear their grave concern at the prospect of a ‘cliff edge’ where the two-year period elapses without agreement.

We believe it is essential that transitional arrangements should form part of the Article 50 negotiations, securing continued access to the Single Market and minimal changes to the way in which our trading relationships are structured, to come into effect at the moment the UK leaves the EU and to last until a new and fuller economic relationship has been agreed and come into effect. This should sit alongside work to ensure that our domestic legal and political frameworks can cope with such a transitional period (see chapter seven). We do not believe that the consideration of such an issue can sensibly be left to the end of the process: rather the UK Government needs to start the Article 50 negotiations with a firm request that such arrangements are negotiated.

Regardless of the longer-term conclusion, we believe that the UK should remain in the Customs Union, at least for a transitional period, to provide continuity and stability for exporters. The UK Government aims to explore opportunities for free trade deals on a bi-lateral basis with countries such as USA, China and India, not covered by current EU customs agreements.

The Welsh Government recognises the potential value that such agreements, if they are capable of being negotiated, might bring, in the longer-term. However, such agreements could not replace the benefits of Single Market participation. In those circumstances, after a transition period, there may be better value in withdrawing from the Customs Union. In that case, the UK Government should aim to replicate on a bi-lateral basis with all willing partner countries the terms of the Customs Union to carry forward outside.

The benefits of continued Single Market access might be achieved on a transitional basis through continued membership of the EEA (with an application for EFTA membership as needed). This option, with appropriate provision to support continued trading opportunities for Welsh and UK primary agricultural and fisheries produce should be fully considered.

### Policy Summary

It will clearly be challenging to successfully complete negotiations on both an EU Exit Agreement, and a new economic agreement between the UK and the EU in the two-year window post-Article 50 notification. Accordingly, it is essential to agree, as a fall-back and on an interim basis, transitional arrangements which enable the UK to maintain Single Market participation and membership of the Customs Union while future trading relationships are explored and negotiated.



# 10 Conclusion

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This White Paper focuses on the main issues for Wales which we believe the UK Government must fully incorporate into its negotiating position as it enters the formal period of exit negotiations. This paper is not, and cannot be exhaustive. It has been written without the benefit of a clear plan, to date, or analysis from the UK Government about how it sees future options. As the UK develops its thinking and enters into a period of formal negotiations, the situation may alter and some perspectives may shift.

In any case, the Welsh Government is committed to continue working closely with the UK Government. We urge the UK Government to take Wales' interests, as outlined by us, fully into account within the wider UK position. Just as this White Paper represents the views of more than one party in Wales, we are clear that decisions taken must have regard for the long term national interests of Wales and the UK. We will be supportive where we can be but vigorously critical where we see Wales' interests in danger of being squandered or neglected.

The UK Government must maintain a commitment to negotiating on behalf of all of its people and all of its constituent countries. We will hold it constructively to account on behalf of the people of Wales. We aim to ensure that the democratic will of the people of Wales, and our economic, social, environmental and cultural needs, fully inform the UK's approach, so that leaving the EU can be, not a threat, but an opportunity to secure a positive future for Wales.

# 11 Annex A – Summary of potential economic impacts on Wales from ‘Brexit’

Prepared by Chief Economist, Welsh Government

## Effects over the longer run

UK level analysis indicates (unsurprisingly) that the scale of trade between the UK and the EU is a key factor in explaining the magnitude of the impact of reduced levels of access to the Single Market on the UK economy.

As set out below, the regional export statistics show that Wales is even more dependent on EU markets for its overseas export of goods than is the UK as a whole.

However, it is not possible to determine the impact of spatial variation in access to the Single Market with any precision. As explained below, the regional export statistics are of limited value for this purpose and there is no reliable data on indirect effects which would be manifested through intra-UK trade.

In any case, the larger part of the impact from leaving the single

market comes from indirect and economy-wide effects, including those that result from reduced imports and inward investment.

Indicators of economic growth, and particularly Gross Value Added (GVA) per head and Household Income, show that Wales and the UK have experienced similar trends over the medium term (10-15 years). In view of the magnitude, and the variance, of the estimates that have been made for the scale of the potential impact of Brexit at the UK level, it is reasonable to use these estimates as the basis of a preliminary estimate of the likely overall impact on the economy in Wales.

Estimates of the longer run economic impact of various Brexit scenarios from three key researchers (two of which are independent) are set out in Table 1.

The analysis reported in Table 1 focuses on the longer run impacts (with 2030 selected for illustration), not the consequences of any short run shocks, which may or may not materialise during the process of negotiating exit and/or new trading arrangements. Nor does the analysis assess the potential impact of a protracted period of uncertainty as a result of the process. The range of possibilities in these areas is simply too wide to allow meaningful quantification, but under some scenarios the costs could be very high.

The analysis reported in the table was undertaken prior to the referendum. As the analysis relates to longer run impacts, the economy’s performance in the months immediately following the referendum does not contribute to the assessment of its reliability.

**Table 1:  
Assessment of  
2030 economic  
impact of Brexit**

Scenario	Organisation	Direct (% of GDP)	Indirect (% of GDP)
EEA membership	CEP	<b>-1.3</b>	
	NIESR	<b>-1.8</b>	
	HM Treasury		<b>-3.8</b>
Free Trade Agreement with EU	CEP		<b>-7.9</b>
	NIESR	<b>-2.1</b>	
	HM Treasury		<b>-6.2</b>
WTO rules	CEP	<b>-2.6</b>	
	NIESR	<b>-3.2</b>	<b>-7.8</b>
	HM Treasury		<b>-7.5</b>

Source: IFS

The figures reported in the table are in each case the central estimates (from a wide range) of the differences the new trading arrangements would make – in other words, the change to whatever the level output would have been in 2030 had the current arrangements persisted.

Lower growth of Gross Domestic Product (GDP) would also be reflected in lower wages and incomes. Purely for illustration, and expressing the impact in today's values, if the impact on growth was at the lower end of the range in the table, each person's income in Wales would be around £200 per year lower than otherwise. If the impact on growth was at the upper end of the range, each person's income would be around £1,200 lower per year.

Results are shown for the two of the most respected independent economic research bodies, The Centre for Economic Performance (CEP)<sup>12</sup> at the London School of Economics (LSE) and the National Institute for Economic and Social Research (NIESR)<sup>13</sup>.

HM Treasury results are also included<sup>14</sup> – these are broadly in line with the independent estimates where comparable. A range of other bodies have also produced figures using a variety of methodologies. In general, the figures quoted in the table are consistent with the broader range of studies.

The Centre for Business Research at Cambridge University has recently published research<sup>15</sup> which suggests that impacts, while negative, could be at or below the bottom end of those indicated in the table. This is

based on an estimate that the impact of leaving the EU on trade flows could be less than assumed by most other researchers.

Analysis produced by 'Economists for Brexit'<sup>16</sup> (not shown in the table) is the main outlier amongst published studies, suggesting a positive impact were the UK unilaterally to adopt a policy of eliminating all barriers to imports. Mainstream researchers (such as those at the CEP) have regarded this as an unlikely scenario. They have also noted that the scope for trade with more geographically distant countries is more limited. In addition, they have argued that for many products, prices on global markets do not reflect economic value because of differences in safety and other aspects of product quality.

The direct impacts shown in the table arise from reductions in export and import volumes with the associated reduced opportunities for specialisation and the loss of scale economies, from higher import and input prices and from reduced inward investment. These effects are relatively straightforward, and uncontroversial, to estimate. The figures expressed are net of changes in contributions to the EU budget (assumed to be zero in the case of the WTO option and lower than current contributions in the other cases).

The indirect effects result from a lower rate of productivity growth that results from factors such as reduced pressure of competition and lower rates of inward investment. The qualitative evidence for such effects is strong, but they are much harder

to quantify, so the figures here should be treated with a fair degree of caution.

Overall, the economic losses associated with Brexit are potentially very large, but also closely related to the level of access to the Single Market that is retained. If maximum access could be retained, the losses could be relatively modest.

It is possible that new free trade agreements with other countries could substitute to some extent for reduced access to the single market. However, and aside from the practical difficulties of securing such deals, there are two main problems. First, there is strong evidence that proximity, especially in geographical terms, but also in terms of the stage of development, is important for levels of trade. Second analysis has shown that non-tariff barriers are probably a bigger obstacle to trade than tariffs themselves.

The estimates in the table relate to the consequences of leaving the EU Single Market and do not consider the option of the UK remaining in the EU Customs Union for goods while leaving the Single Market in other respects. The advantages and disadvantages of remaining in the EU Customs Union are considered on the next page.

### **Shorter run economic effects**

The estimates described above represent long term impacts. Much attention has been focused on estimates of potential impact of 'shocks' associated with the referendum result and its immediate consequences. So far, such impacts have been much more modest than many expected. This has been attributed by some

<sup>12</sup> CEP analysis: <http://cep.lse.ac.uk/pubs/download/brexit02.pdf> 12

<sup>13</sup> NIESR analysis: [www.niesr.ac.uk/sites/default/files/publications/National%20Institute%20Economic%20Review-2016-Ebell-121-38.pdf](http://www.niesr.ac.uk/sites/default/files/publications/National%20Institute%20Economic%20Review-2016-Ebell-121-38.pdf)

<sup>14</sup> HM Treasury analysis: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/517154/treasury\\_analysis\\_economic\\_impact\\_of\\_eu\\_membership\\_print.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517154/treasury_analysis_economic_impact_of_eu_membership_print.pdf)

<sup>15</sup> [www.cbr.cam.ac.uk/fileadmin/user\\_upload/centre-for-business-research/downloads/working-papers/wp483revised.pdf](http://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp483revised.pdf)

<sup>16</sup> [www.economistsforbrexit.co.uk/](http://www.economistsforbrexit.co.uk/)

commentators in part to the pre-emptive actions taken by the Bank of England. Consumer spending, in particular, has been buoyant, but it remains early days.

In any case, the analysis of short run impacts raises different issues from those that arise in analysing the longer run consequences that will only take full effect after the UK has actually left.

Perhaps the most obvious short-run impact of the referendum result so far has been on the exchange rate. At the time of writing the effective sterling exchange rate has fallen by around 12% since the period before the referendum.

## The Customs Union

Customs unions are arrangements among countries in which the parties:

- Agree to allow free trade in goods within the customs union, and
- Agree to a common external tariff (CET) with respect to imports from the rest of the world.

The EU Customs Union covers EU members plus Andorra, San Marino, Monaco and Turkey.

One of the main advantages of remaining in the EU Customs Union would be that we would retain free trade in goods with EU members as well as Andorra, San Marino, Monaco and Turkey and the countries which are partners in the EU's 56 free trade agreements, which provide better access to markets outside of the EU<sup>17</sup>. This represents a

substantial base of favourable trading relationships around the world for Welsh and UK exports.

In addition, the commitment to a common external tariff typically allows the removal or reduction of complex customs procedures at borders, particularly those related to 'Rules of Origin' requirements.

It is challenging to estimate the economic costs of such customs' related non-tariff barriers, but consideration of the results of a range of studies suggests that they could amount to around one per cent of GDP.

There are no quantified estimates of the overall benefits of remaining in the EU Customs Union, as the available studies have not been able to distinguish the trade benefits associated with membership of the Customs Union from those associated with membership of the Single Market. The benefits of the Single Market are generally greater as they include lower non-tariff barriers in most areas (other than customs processes) and positive effects on the service sector.

A disadvantage of the UK remaining in the Customs Union after leaving the EU would be that this would preclude the UK from negotiating other bilateral trade deals and could see the UK being required to introduce tariff free access to the UK market for countries concluding new free trade agreements with the EU, without being immediately able to secure reciprocal advantages for UK exports.

The depreciation of sterling serves as something of a cushion. The beneficial effects of sterling's depreciation include more competitive prices for both exporting and import competing industries. Over time, as firms are able to change production levels, this should result in higher levels of exports and lower levels of imports. The value of income earned overseas should also increase. These effects will be reflected in an improving position on the balance of payments.

The main negative effects take the form of higher import prices. These higher import prices both erode the beneficial effects of depreciation for exporters (as many inputs are imported) and reduce real wages and real incomes. This is a one-off, short run effect<sup>18</sup> – but if it persists people's future income growth is effectively reset onto a lower trajectory.

The role of imported inputs, and the fact that much competition in export prices may turn on factors other than price, may in part explain why the UK's experience of the impact of previous periods of sterling weakness on international trade has been rather disappointing. It may also limit the scope for depreciation to cushion the impact of the decision to leave the EU.

It is sometimes argued that the effect of depreciation will be to (perhaps more than) offset the impact of any tariffs or other trade barriers that result from the new trading arrangements that will have to be put into place. If the mainstream experts are right, however, this view betrays a misunderstanding. Depreciation is the counterpart of lower future

<sup>17</sup> However the EU does not have trade deals with many large economies. The current list of EU FTA markets includes: Mexico, Chile, Peru, Morocco, Algeria, Tunisia, Egypt, Jordan, Israel, Occupied Palestinian Territory, Lebanon, Syria, FYR Macedonia, Albania, Serbia, Montenegro, Bosnia and Herzegovina, Switzerland, Korea, Antigua, Barbuda, Belize, Bahamas, Barbados, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Colombia, Honduras, Nicaragua, Panama, Guatemala, Papua New Guinea, South Africa, Madagascar, Mauritius, Seychelles, Zimbabwe, Costa Rica, El Salvador, Fiji, Cameroon, Georgia, Moldova, Ukraine, EU Customs Union (Andorra, Monaco, San Marino, Turkey), EEA (Norway, Iceland, Liechtenstein).

<sup>18</sup> As they are a one-off transitional effect, the price increases are not in this sense "inflation".

growth; so by definition, any beneficial effects must have been more than outweighed by the negative consequences of leaving on productivity.

A prolonged period of uncertainty associated with the process for negotiating exit from the EU and securing alternative trading relationships would be expected to have negative, possibly severely negative, economic consequences over the medium term. Reduced business investment could be a key channel through which these negative effects are transmitted. It is not possible to provide firm estimates of these effects, which are contingent on how the process unfolds. However, the potential for large negative consequences increases the case for the early agreement of transition arrangements, if (as seems likely) rapid progress on permanent arrangements is unachievable.

The Office for Budget Responsibility (OBR), in its November 2016 Economic and Fiscal Outlook<sup>19</sup>, identified reduced investment and lower in-migration as the principal channels through which the process of leaving the EU would impact on the UK economy over the short run.

The OBR's central estimate of the impact of reduced investment on output in 2021 was for a reduction in UK GDP of 1.5%, with GDP per head down 1.4%. Lower migration resulted in GDP down 1% in 2021 with GDP per head reduced by 0.3%. The combined effect of lower investment and migration in 2021 was a reduction in GDP of 2.4% and of GDP per head of 1.7%. However, the OBR stressed the great uncertainty associated with these estimates.

The OBR's estimates of the short run impact on growth are towards the less pessimistic end of the range of figures produced by independent forecasters, but still represent a major economic cost and do not imply that the estimates for the longer run effects set out above are unduly negative.

### **Welsh-specific shorter-run effects**

Although over the medium term the economy in Wales has tracked UK economic performance quite closely, over the short term Wales is potentially more vulnerable to economic shocks than many other parts of the UK.

This vulnerability reflects lower resilience, due to lower wages and incomes and to higher levels of deprivation. Greater reliance on manufacturing than in many other parts of UK may also increase the risks facing Wales.

In addition, it should be noted that Welsh international exports are dominated by a small number of large exporters which could mean that loss of key industries would be very significant to some geographical locations.

For all these reasons, if the process of leaving the EU results at some point in a sharp slowdown, perhaps even a recession, the negative effects in Wales are likely to be greater than for the UK as a whole.

### **Impact on Welsh sectors dependent on international markets**

As explained above, the largest impact on Wales were new trading arrangements to limit

access to the Single Market is likely to be felt indirectly through Wales' trading links with the rest of the UK. This follows from the scale of the impact on UK economic output and income, the scale of the trading links between Wales and the rest of the UK, the fiscal impacts, and the fact that analysis shows that the larger, indirect, effects are the economy-wide consequences of lower productivity growth.

However, there will also be important direct impacts on sectors in Wales that export, either directly or through the provision of inputs to products exported from the rest of the UK. As already noted, there are no statistics on the latter, 'indirect', exports, but approximate calculations suggest they could be as important to the economy in Wales as direct exports. The Welsh Government is therefore engaging with businesses in Wales in order to better understand potential impacts via indirect exports.

Important effects on import-using sectors and consumers would also be expected if imported goods become more expensive or difficult to obtain.

Analysis is being undertaken by the Welsh Government to improve understanding of the implications for key Welsh economic sectors under different scenarios for the UK's future trading arrangements. This Annex is not intended to provide such an analysis, but rather to set out what is known about the current pattern of Welsh international trade and highlight some of the major issues that arise in interpreting the associated data.

### **Welsh export and imports**

In respect of direct trade, data is available on exported and imported goods from HMRC<sup>20</sup>.

<sup>19</sup> <http://cdn.budgetresponsibility.org.uk/Nov2016EFO.pdf>

<sup>20</sup> <https://www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx>

The preparation of the data involves a degree of apportionment of UK totals for businesses operating across the UK. This means that the figures may not reflect accurately the dependency of Welsh business units on specific export markets. It also means that the data may have limited value in informing Welsh Government policy implementation, for example in respect of identifying market segments where export promotion may have most potential.

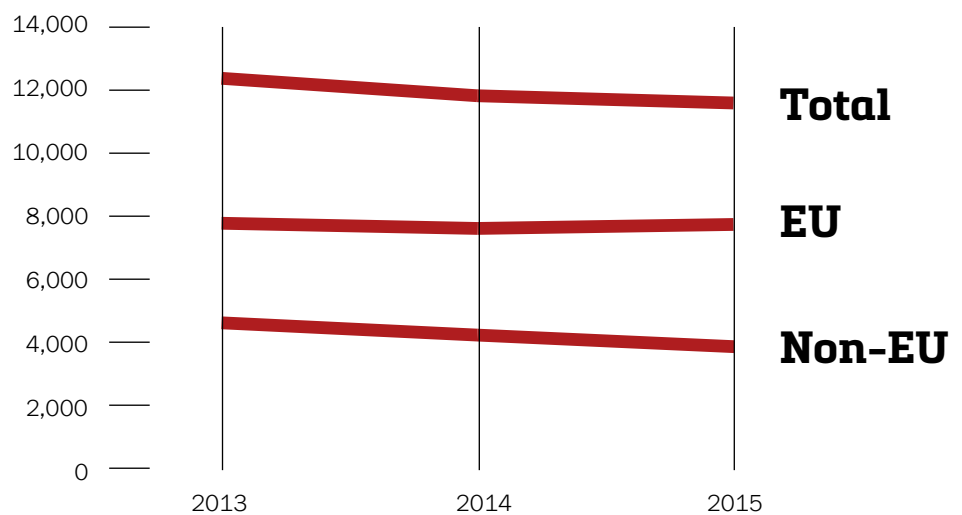
Furthermore, the figures for export values do not reflect value-added in Wales. This is a key point, which is explained further below, and means that great caution must be exercised before making inferences about the economic impact of changing export levels.

Data for exports can also be volatile, in part because a small number of businesses account for a high proportion of Welsh exports, and figures can be influenced by the timing of

shipments. For this reason, data for a single year, and even more for an individual quarter, must be treated as indicative rather than definitive.

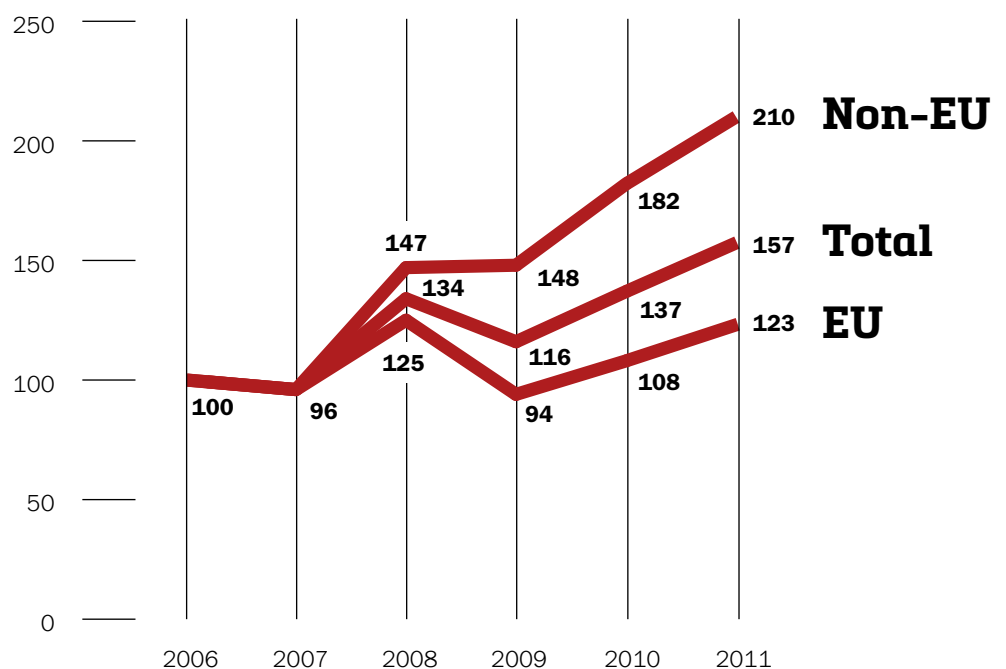
With these caveats in mind, recent trends in Welsh exports of goods are shown in Charts 1a and 1b. Recent methodological improvements undertaken by HMRC mean that data for the years prior to 2012 are less reliable than data for more recent years, particularly in respect of levels of trade. Chart 1b is included only to illustrate broad trends.

**Chart 1a:  
Goods exports  
from Wales.  
2013-2015  
£m**



Source: Welsh Government analysis of HMRC data

**Chart 1b:  
Goods exports  
from Wales  
2006-2011.  
2006=100**



Source: Welsh Government analysis of HMRC data

It can be seen from Chart 1a that the total value of Welsh goods exports to EU countries is significantly greater than that of goods exports to non-EU countries, and has been broadly stable over the last 3 years.

Chart 1b, which shows changes from the base year (2006) rather than levels, indicates that over the medium term, prior to 2012, exports to EU countries had been broadly stable, while

exports to non-EU countries had been growing. This is likely in part to have reflected a period of recovery in global trade following the recession.

Data for major categories of goods exports from Wales, and from the UK as a comparator, are shown in Table 2.

Table 2 shows that around two-thirds of Welsh goods exports go to EU countries, compared

to around half for the UK as a whole (for comparison, the Scottish share is also around one half).

Table 3 provides an analysis at a more detailed level for the exports of goods products which have the highest value, averaged over the most recent three years to reduce the impact of annual volatility.

	Wales		UK	
	Share to EU (%)	Sector share (%)	Share to EU (%)	Sector share (%)
Food and Live animals	83%	1%	71%	2%
Beverages and tobacco	43%	1%	39%	3%
Crude materials, inedible excl fuels	28%	4%	41%	2%
Minerals, fuels, lubricants etc	47%	21%	74%	4%
Animal and vegetable oils etc.	61%	0%	84%	0%
Chemicals and related products	55%	16%	49%	19%
Manufactured goods	68%	18%	53%	9%
Machinery and transport equipment	80%	25%	42%	43%
Miscellaneous manufactured goods	55%	13%	47%	15%
Commodities not classified elsewhere	87%	0%	15%	3%
All	67%	100%	48%	100%

Source: Welsh Government analysis of HMRC data

**Table 3:  
Products exported from  
Wales, 2013-15, £m**

	<b>Non EU</b>	<b>EU</b>	<b>All</b>
Other transport equipment	<b>151</b>	<b>2,156</b>	<b>2,307</b>
Petroleum, petroleum products and related materials	<b>999</b>	<b>1,022</b>	<b>2,021</b>
Iron and steel	<b>265</b>	<b>662</b>	<b>927</b>
Electric machinery, apparatus etc. and parts NES	<b>328</b>	<b>280</b>	<b>609</b>
Non-ferrous metals	<b>278</b>	<b>326</b>	<b>604</b>
Road vehicles (incl air cushion vehicles)	<b>79</b>	<b>354</b>	<b>432</b>
Medicinal and pharmaceutical products	<b>215</b>	<b>145</b>	<b>360</b>
Miscellaneous manufactured articles not elsewhere specified	<b>62</b>	<b>295</b>	<b>358</b>
Professional, scientific and controlling INS and apparatus NES	<b>187</b>	<b>102</b>	<b>288</b>
General industrial machinery and equipment and parts NES	<b>148</b>	<b>139</b>	<b>286</b>
Furniture and parts thereof; bedding and mattresses etc.	<b>198</b>	<b>85</b>	<b>283</b>
Organic chemicals	<b>126</b>	<b>153</b>	<b>279</b>
Manufactures of metal not elsewhere specified	<b>76</b>	<b>175</b>	<b>251</b>
Power generating machinery and equipment	<b>123</b>	<b>125</b>	<b>248</b>
Metalliferous ores and metal scrap	<b>155</b>	<b>63</b>	<b>218</b>
Machinery specialised for particular industries	<b>127</b>	<b>76</b>	<b>203</b>
Plastics in primary forms	<b>68</b>	<b>126</b>	<b>194</b>
Paper, paperboard and manufacturers thereof	<b>53</b>	<b>121</b>	<b>175</b>
Chemical materials and products not elsewhere specified	<b>92</b>	<b>83</b>	<b>175</b>
Office machines and ADP machines	<b>48</b>	<b>120</b>	<b>168</b>
Non-metallic mineral manufactures not elsewhere specified	<b>52</b>	<b>104</b>	<b>156</b>
Plastics in non-primary forms	<b>56</b>	<b>89</b>	<b>145</b>
Telecomms etc apparatus and equipment	<b>36</b>	<b>74</b>	<b>110</b>
Essential oils and perfume materials; toilet preparations etc.	<b>42</b>	<b>67</b>	<b>109</b>
Rubber manufactures not elsewhere specified	<b>15</b>	<b>89</b>	<b>104</b>

Source: Welsh Government analysis of HMRC data



Data on services exports are produced by the Office of National Statistics (ONS) on an experimental basis.

Total service exports from Wales in 2014 (the most recent year) were £4.7bn compared to total goods exports of £13.3bn.

The top three categories of service sector exports from Wales in 2014 were:

- Insurance and pension services (25%)
- Manufacturing services e.g. repairs (25%)
- Financial services (18%).

Chart 2 provides a high-level breakdown showing the largest Welsh export sectors covering both goods and services (averaged over the most recent three years to reduce volatility<sup>21</sup>). The experimental data on the

export of services cannot generally be broken down by destination. Data on international students' spending, which represents a form of service exporting, is compiled from a different source and may not be fully comparable<sup>22</sup>.

The export data for both goods and services reflect a broad measure of 'output'<sup>23</sup> and not 'value added'. In consequence, a high value for exports does not necessarily mean that Wales benefits from a high level of value-added or employment. For context, value-added in production industries is typically around one-quarter the value of turnover; the share of value added in the data for exports will be even lower<sup>24</sup>.

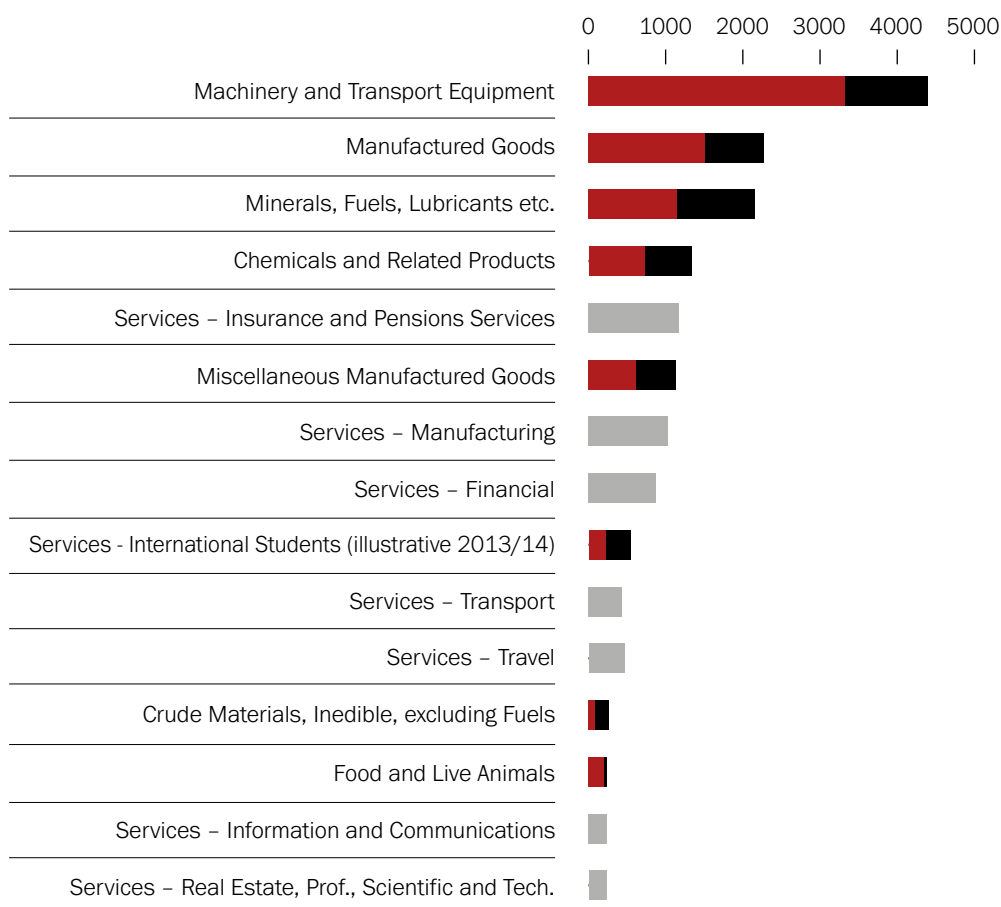
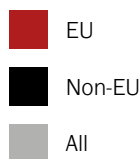
The most extreme example of the disparity between export values and value-added is probably provided by the export of Petroleum etc (by far the largest

component of 'Goods – Minerals, Fuels, etc'), which shows a very high value but where a large part of this value is accounted for by imports that are subsequently re-exported with little or no processing.

The share of Welsh value-added and employment will probably be higher in the production of most services exports than goods, so the headline data in Chart 2 will tend to downplay the importance of the former compared to the latter. Services are also likely to play an increasingly important role over time, as there is a general tendency across developed countries for the demand for services to outpace that for manufactured goods, reflecting changes in the patterns of demand as affluence increases.

Table 4 provides more detail on export destinations, ranked by their importance to Wales, with the UK again shown as a comparator.

## Chart 2: Welsh Goods and Services Exports, average 2013-2015, £m



Source: Welsh Government

<sup>21</sup> Data for services is not available for 2015, so is a two year average.

<sup>22</sup> Spending by international tourists, which has been around £400m per year over recent years, will be largely reflected in 'Services – Travel'.

<sup>23</sup> The export values recorded in the regional trade statistics for goods have a broader definition than the value of sales – they cover the value of goods crossing the border, even where ownership has not changed (for example where refurbishment has been undertaken).

<sup>24</sup> A provisional attempt to estimate the Welsh value added associated with direct Welsh exports is presented in this Annex.

**Table 4: Goods exports, 2015**

	<b>Wales</b>	<b>UK</b>
Germany	<b>24.8%</b>	<b>11.0%</b>
USA	<b>14.6%</b>	<b>16.0%</b>
France	<b>13.7%</b>	<b>6.5%</b>
Ireland	<b>7.6%</b>	<b>6.1%</b>
Netherlands	<b>5.2%</b>	<b>6.3%</b>
Belgium	<b>3.8%</b>	<b>4.2%</b>
Spain	<b>2.7%</b>	<b>3.2%</b>
Italy	<b>2.1%</b>	<b>3.1%</b>
China	<b>1.8%</b>	<b>4.1%</b>
Sweden	<b>1.8%</b>	<b>1.6%</b>
Canada	<b>1.8%</b>	<b>1.4%</b>
Switzerland	<b>1.2%</b>	<b>2.0%</b>
Poland	<b>1.2%</b>	<b>1.3%</b>
South Korea	<b>1.2%</b>	<b>1.7%</b>
Turkey	<b>1.1%</b>	<b>1.2%</b>
India	<b>0.8%</b>	<b>1.4%</b>
Japan	<b>0.8%</b>	<b>1.5%</b>
Australia	<b>0.7%</b>	<b>1.3%</b>
Singapore	<b>0.7%</b>	<b>1.3%</b>
Saudi Arabia	<b>0.7%</b>	<b>2.0%</b>
UAE	<b>0.7%</b>	<b>2.1%</b>
Hong Kong	<b>0.6%</b>	<b>1.9%</b>
Czech Republic	<b>0.6%</b>	<b>&lt;0.5%</b>
South Africa	<b>0.5%</b>	<b>&lt;0.5%</b>
Norway	<b>0.5%</b>	<b>1.1%</b>

Source: Welsh Government analysis of HMRC data

The top three countries to which Wales exports accounted for over 50% of all exports in 2015 (the top 10 countries made up nearly 80% of all exports).

Table 4 also highlights some differences between the UK and Wales in terms of key export markets. In particular, Germany and France are both more significant markets for Wales than for the UK.

### Welsh goods imports

HMRC also provides data on the import of goods (but no data is available on services imports). Data for the most recent calendar year are shown in Table 5.

As with the export data, the figures are derived by apportioning import data for businesses operating on a

pan-UK basis. This means that the data may not accurately reflect the dependency of Welsh business units on imported inputs. Along with the role of ‘indirect’ exports and imports which take place through Welsh trade flows with the rest of the UK, this means that it is not appropriate to compare Welsh exports and imports to compute a Welsh ‘balance of trade’.

**Table 5:  
Goods imports, 2015**

	<b>Wales</b>	<b>UK</b>
Food and Live Animals	<b>5%</b>	<b>8%</b>
Beverages and Tobacco	<b>1%</b>	<b>1%</b>
Crude Materials	<b>6%</b>	<b>2%</b>
Mineral Fuels	<b>19%</b>	<b>8%</b>
Animal and Vegetable Oils	<b>0%</b>	<b>0%</b>
Chemicals	<b>10%</b>	<b>13%</b>
Manufactured Goods	<b>13%</b>	<b>11%</b>
Machinery and Transport	<b>33%</b>	<b>38%</b>
Miscellaneous Manufactures	<b>12%</b>	<b>16%</b>
Other commodities	<b>0%</b>	<b>2%</b>
<b>Share from EU</b>	<b>48%</b>	<b>55%</b>

Source: Welsh Government analysis of HMRC data

### Spatial implications

Reduced access to European markets that impacted on the viability of Welsh exporting businesses might be expected to result in effects that differ spatially. Data on exports is not available below the all-Wales level, but the extent of the dependency

of an area on manufacturing industry is likely to provide a broad indication of vulnerability. Table 6 shows the share of the workforce in each local authority area in Wales that works in the production sector (which is comprised mainly manufacturing industry). Agriculture may also

be affected by reduced market access, and, depending on the replacement arrangements put in place, by changes to the system of agricultural support. The relative dependency of Welsh local authority areas on agriculture is indicated by the data on employment in Table 7.

**Table 6:**  
**Workforce in the production sector, 2015, %**

Flintshire	<b>25%</b>
Blaenau Gwent	<b>23%</b>
Caerphilly	<b>22%</b>
Neath Port Talbot	<b>21%</b>
Wrexham	<b>21%</b>
Torfaen	<b>18%</b>
Merthyr Tydfil	<b>16%</b>
Rhondda Cynon Taf	<b>15%</b>
Isle of Anglesey	<b>15%</b>
Bridgend	<b>14%</b>
Carmarthenshire	<b>13%</b>
Newport	<b>12%</b>
Vale of Glamorgan	<b>12%</b>
Monmouthshire	<b>10%</b>
Powys	<b>10%</b>
Gwynedd	<b>9%</b>
Denbighshire	<b>9%</b>
Pembrokeshire	<b>8%</b>
Cardiff	<b>7%</b>
Swansea	<b>7%</b>
Ceredigion	<b>5%</b>
Conwy	<b>5%</b>

Source: Welsh Government

**Table 7:  
Workforce in agriculture,  
forestry and fishing, 2015, %**

Powys	<b>16%</b>
Ceredigion	<b>11%</b>
Isle of Anglesey	<b>8%</b>
Carmarthenshire	<b>7%</b>
Pembrokeshire	<b>6%</b>
Gwynedd	<b>6%</b>
Denbighshire	<b>5%</b>
Monmouthshire	<b>5%</b>
Conwy	<b>3%</b>
Flintshire	<b>2%</b>
Wrexham	<b>1%</b>
Vale of Glamorgan	<b>1%</b>
Swansea	<b>1%</b>
Neath Port Talbot	<b>1%</b>
Rhondda Cynon Taf	<b>1%</b>
Torfaen	<b>1%</b>
Caerphilly	<b>1%</b>
Bridgend	<b>0%</b>
Merthyr Tydfil	<b>0%</b>
Newport	<b>0%</b>
Cardiff	<b>0%</b>
Blaenau Gwent	<b>n/a</b>

Source: Welsh Government

As noted above, although there are no official statistics, the value of Welsh trade with the rest of the UK is understood to be several times greater than that of Welsh international exports. An indication of sectors in which Wales is likely to be a net exporter (importer) to (from) the

rest of the UK can be gained by examining the degree to which Wales is relatively specialised across sectors. This helps provide some context for considering which sectors could be vulnerable to decreases in demand from the wider UK economy.

Table 8 shows areas where Wales is most and least specialised compared to the rest of the UK. These figures are created by comparing levels of employment by industry in Wales with levels across the UK as a whole<sup>25</sup>.

<sup>25</sup> The location quotient shows the relative intensity of employment in Wales compared to the UK as a whole. A ratio of one indicates that Wales has the same share of employment in the sector as the UK as a whole. A figure of, for example, two, indicates that Wales has twice as high a share of employment in the sector as the UK, while a figure of 0.5 indicates a Welsh share of employment that is half that for the UK as a whole. The data in the table is currently being updated by ONS, but location quotients generally evolve gradually so the data for 2011 should remain reasonably accurate.

**Table 8:  
Specialisation by  
Sector in Wales (2011)**

<b>Most specialised</b>	
Manufacture of basic metals	<b>3.2</b>
Mining of coal and ignite	<b>2.8</b>
Forestry and logging	<b>1.9</b>
Water transport	<b>1.9</b>
Manufacture of basic pharmaceutical products etc.	<b>1.8</b>
Repair and installation of machinery amd equipment	<b>1.7</b>
Manufacture of paper and paper products	<b>1.7</b>
Crop and animal production, hunting and related service activities	<b>1.7</b>
Manufacture of other transport equipment	<b>1.7</b>
Manufacture of coke and refined petroleum products	<b>1.6</b>
Manufacture of electrical equipment	<b>1.5</b>
Manufacture of motor vehicles, trailers and semi-trailers	<b>1.5</b>
Other mining and quarrying	<b>1.5</b>
<b>Least specialised</b>	
Manufacture of leather and related products	<b>0.5</b>
Publishing activities	<b>0.5</b>
Motion picture, video and television programme production etc.	<b>0.5</b>
Activities auxillary to financial services and insurance activities	<b>0.5</b>
Fishing and aquaculture	<b>0.5</b>
Activities of head offices; management consultancy activities	<b>0.5</b>
Repair of computers and personal and household goods	<b>0.4</b>
Information service activities	<b>0.4</b>
Computer programming, consultancy and related activities	<b>0.3</b>
Scientific research and development	<b>0.3</b>
Advertising and market research	<b>0.2</b>
Air transport	<b>0.2</b>
Source: ONS	Manufacture of wearing apparel <b>0.2</b>

## Inward investment

Foreign owned firms account for a high share of manufacturing output (and investment) in Wales. In the most recent available year, non-UK owned firms accounted for around 30% of Welsh value-added – see Chart 3. This is only slightly higher than the proportion for the UK as a whole, although the representation of manufacturing in the Welsh total is much greater (not shown).

Wales has performed well in attracting new foreign inward investment projects over the last few years<sup>26</sup>.

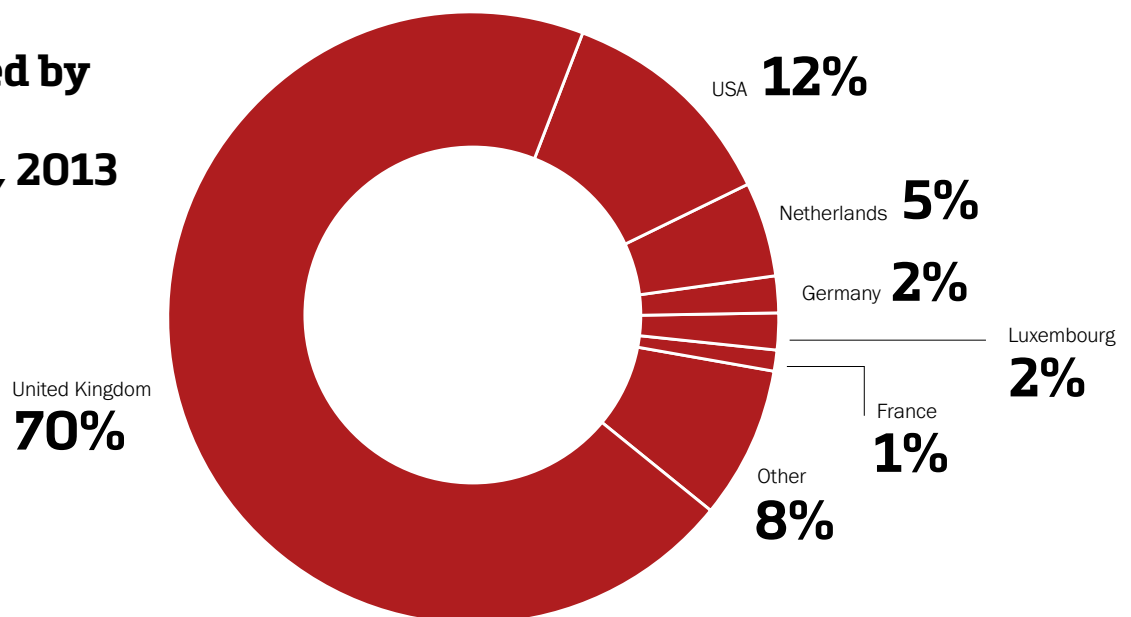
It is of course highly likely that inward investment across the UK will be negatively effected by the UK leaving the EU<sup>27</sup>. Again, the strength of the impact over the long term will be determined by the level of access to the Single Market that is eventually secured and the importance of EU markets to the investors in question. The latter will inevitably vary<sup>28</sup>.

However, the uncertainty created by a prolonged negotiating process may be of more immediate concern as this will created uncertainty deterring both new inward investors and discouraging

existing overseas investors from making new, or replacement, investments. These adverse effects might be mitigated by early agreement on favourable transition arrangements.

The adverse effects of lower inward investment to Wales could be very significant, not least because the evidence shows that productivity, and pay, tends to be higher for people employed in multi-national businesses<sup>29</sup>. In addition, there is evidence that such businesses generate ‘spill-over’ effects<sup>30</sup>, prompting productivity improvements in indigenous firms.

**Chart 3:  
Value added by  
country of  
ownership, 2013**



Source: ONS

<sup>26</sup> Data for 2015/16: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/550779/DIT\\_Investment\\_Results\\_2015-16\\_v1\\_05-09-2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/550779/DIT_Investment_Results_2015-16_v1_05-09-2016.pdf)

<sup>27</sup> Recent evidence suggests that membership of the EU may have increased FDI into the UK by around 30%: <http://cep.lse.ac.uk/pubs/download/dp1453.pdf>

<sup>28</sup> For the importance of access to the EU Single Market and of other factors influencing inward investment, see: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/277171/ep7-foreign-direct-investment-trends-manufacturing.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277171/ep7-foreign-direct-investment-trends-manufacturing.pdf)

<sup>29</sup> <http://cep.lse.ac.uk/pubs/download/dp0672.pdf>

<sup>30</sup> Evidence on spillover effects summarised here: <http://cep.lse.ac.uk/pubs/download/brexit03.pdf>

However, earlier analysis for Wales shows a more mixed picture: <http://gov.wales/docs/caecd/research/090617-foreign-direct-investment-en.pdf>

# 12 Annex B - Evidence Summary on EU Migration in Wales

Prepared by Public Policy Institute for Wales (PPIW) for the  
Welsh Government's European Advisory Group

November 2016

## Summary

- The First Minister has asked the Public Policy Institute for Wales to provide analytical support to the European Advisory Group (EAG). The Institute's work will complement analyses conducted by Welsh Government officials and others.
- This note has been prepared to help inform discussion at the EAG's meeting on 28th November. It draws together existing evidence on four issues: the scale of EU migration to Wales; EU migration from Wales; the demographics and labour market characteristics of EU migrants living in Wales; and public attitudes to EU migrants in Wales.
- There is scope for further analysis to fill some of the gaps in the existing evidence base. This could be prepared in time for the EAG's next meeting early in 2017.

## The scale of EU migration in Wales

- The proportion of those living in Wales who are EU migrants is low compared to the UK average.
- In the last decade the proportion of EU migrants has increased but more slowly than the UK average.
- More than half of EU migrants in Wales are concentrated in six local authority areas – Cardiff, Newport, Carmarthenshire,

Swansea, Flintshire and Wrexham.

- The distribution of and the increase in EU migrants in Wales has been uneven. Some areas, for example Merthyr Tydfil, have seen large percentage increases, albeit from a low base.

## Migrant workers

- Most long term EU migrants come to Wales to work. More than half report that they already had a job to go to on arrival.
- Working age EU migrants in Wales are more likely to be in work than the rest of the population. On average, migrant workers in Wales earn slightly less than those born in the UK and are more likely to be employed in elementary occupations (performing simple and routine tasks that often require physical effort).
- There are more than three times as many EU migrants as non-EU migrants in manufacturing, while for public administration, education and health, there are more than twice as many non-EU migrants as EU migrants.

## Public attitudes

- Recent survey data suggest that people in Wales are less sympathetic to EU migrants than people in other parts of the UK.
- Almost three quarters consider EU migrant workers to be a net cost, and people in Wales are

more likely than those in other parts of the UK to believe that immigration should be reduced.

- The existing data do not show a strong correlation between the scale of inward migration into an area and the size of the vote in favour of leaving the EU.

## Policy implications

- The relatively low level of migration from the EU to Wales suggests that restrictions on free movement of people may have less impact in broad aggregate terms than in other parts of the UK.
- The uneven distribution of EU migrants living in Wales means that the size of the impact of restrictions on free movement could vary between communities, or spatially concentrated industries and services.
- The overall figures may also mask the vulnerability of some public services and economic sectors to restrictions on free movement. Analysis shows that tourism and manufacturing might be more susceptible than other sectors. It has also been suggested that the Welsh NHS could be vulnerable to restrictions on the number of EEA healthcare professionals working in the UK (Zolle, 2016).
- Restrictions on free movement may not address the underlying causes of dissatisfaction in communities where large majorities voted in favour of leaving the EU.



## Further analysis

- This report is based on a rapid review of the available secondary data.
- The initial conclusions that we have presented could, and we believe should, be tested through more in depth analysis of administrative data which would provide a better understanding of recent migrant flows and the role that EU migrants currently play in Wales.
- This analysis could also help to identify areas and sectors where restrictions on free movement are likely to have the biggest impacts and explore the impact of different scenarios in terms of restrictions on free movement of people.

## Introduction

The First Minister has asked the Public Policy Institute for Wales (PPIW) to provide analytical

support to the European Advisory Group (EAG). The Institute's work will complement analyses conducted by Welsh Government officials and others.

One of the themes currently being considered by the European Advisory Group (EAG) is the implications for Wales of any changes to the freedom of movement of people as a result of the UK leaving the European Union. This note has been prepared to help inform discussion of these issues at the EAG's meeting on 28th November. It draws together existing evidence about:

- The scale of EU migration to Wales;
- EU migration from Wales;
- The demographics and labour market characteristics of EU migrants; and
- Public attitudes to EU migrants in Wales.

There is scope for further analysis to fill some of the gaps in the existing evidence base and this could be prepared in time for the EAG's next meeting early in 2017.

## Migration to Wales

### Non-UK born residents in Wales

A lower proportion of people living in Wales are migrants than is the case in the UK as a whole. In Wales 2.6% of the population are EU migrants and 3.2% are non-EU migrants compared to the UK average of 5.2% EU migrants and 8.5% non-EU migrants (Table 1).

Wales is home to 4.8% of the total UK population but just 2% of the UK migrant population. This means that it has a smaller share than almost any other part of the UK (Figure 1).

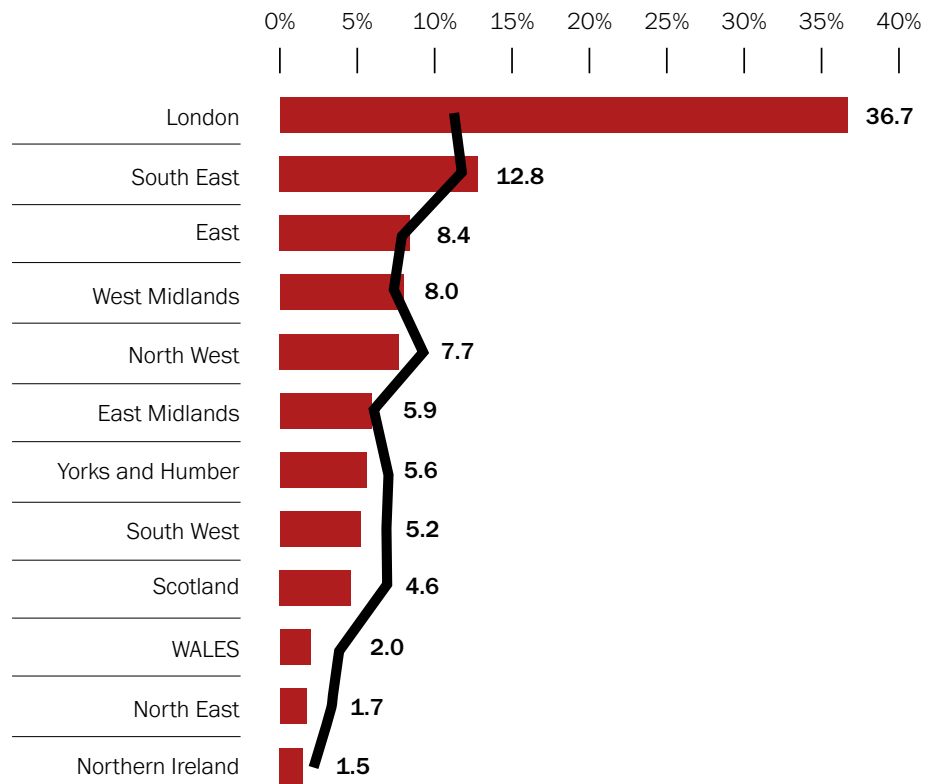
**Table 1:  
Scale of EU  
and non-EU  
migration into  
Wales and UK  
(based on  
country of  
birth)**

	Wales		UK	
	Number	% of population	Number	% of population
EU migrants	<b>79,100</b>	<b>2.6%</b>	<b>3,379,500</b>	<b>5.2%</b>
Non-EU migrants	<b>97,500</b>	<b>3.2%</b>	<b>5,467,000</b>	<b>8.5%</b>
Total migrant population	<b>176,600</b>	<b>5.8%</b>	<b>8,846,500</b>	<b>13.7%</b>

Source: StatsWales (June 2016) based on data from Labour Force and Annual Population surveys

**Figure 1:  
Where do people  
born abroad live  
in the UK? (2015)**

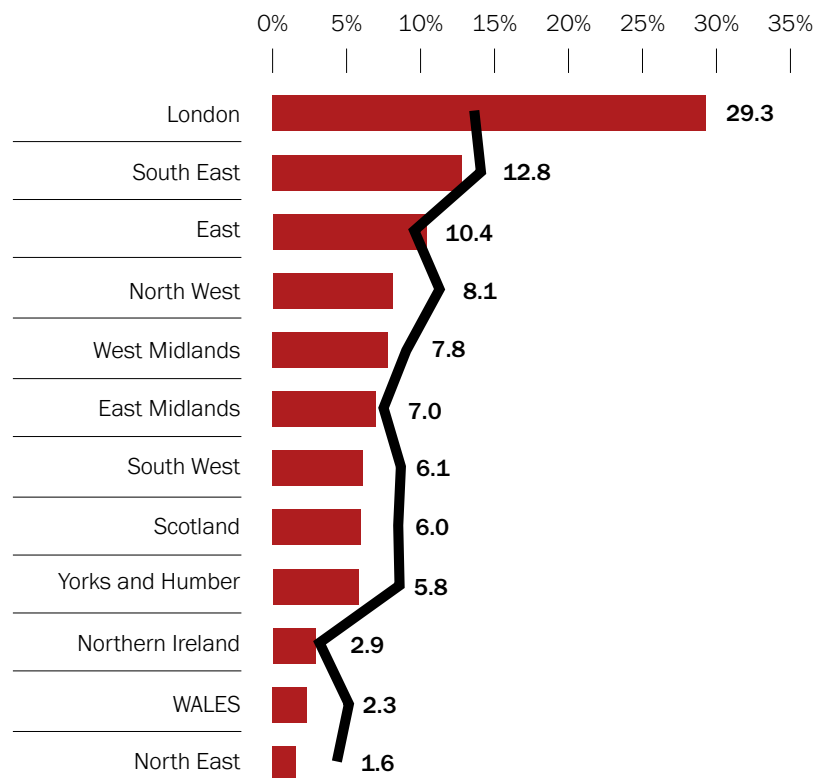
■ Migrant share (%)  
— Total population share (%)



Source: ONS (December 2015) based on data from Labour Force and Annual Population surveys

**Figure 2:  
Where do EU  
migrants live in  
the UK? (2015)**

■ EU migrant share (%)  
— Total population share (%)



Source: ONS (December 2015) based on data from Labour Force and Annual Population surveys

## Non-UK born residents by local authority area

Six local authority areas account for 61.4% of all non-UK born people living in Wales.

Almost a quarter live in Cardiff. Other areas with the largest numbers of non-UK born residents are Swansea, Newport, Carmarthenshire, Wrexham and Flintshire (Table 2).

There are wide variations between areas. Non-UK born residents make up just 2% of the population of Rhondda Cynon Taf and Neath Port Talbot but more than 10% in Cardiff and Newport.

**Table 2:  
Residents in local authorities in Wales born outside the UK (ranked in descending order by percentage of population)**

	<b>Total</b>	<b>% of all non-UK born residents in Wales</b>	<b>% of local population</b>
Cardiff	<b>41,100</b>	<b>23.3%</b>	<b>11.6%</b>
Newport	<b>15,300</b>	<b>8.7%</b>	<b>10.5%</b>
Swansea	<b>21,800</b>	<b>12.3%</b>	<b>9.1%</b>
Carmarthenshire	<b>13,300</b>	<b>7.5%</b>	<b>7.3%</b>
Ceredigion	<b>4,900</b>	<b>2.8%</b>	<b>6.6%</b>
Wrexham	<b>8,600</b>	<b>4.9%</b>	<b>6.3%</b>
Flintshire	<b>8,400</b>	<b>4.8%</b>	<b>5.5%</b>
Vale of Glamorgan	<b>6,500</b>	<b>3.7%</b>	<b>5.2%</b>
Conwy	<b>5,600</b>	<b>3.2%</b>	<b>4.9%</b>
Gwynedd	<b>5,800</b>	<b>3.3%</b>	<b>4.8%</b>
Torfaen	<b>4,100</b>	<b>2.3%</b>	<b>4.5%</b>
Monmouthshire	<b>4,100</b>	<b>2.3%</b>	<b>4.5%</b>
Pembrokeshire	<b>5,100</b>	<b>2.9%</b>	<b>4.1%</b>
Denbighshire	<b>3,800</b>	<b>2.2%</b>	<b>4.1%</b>
Anglesey	<b>2,700</b>	<b>1.5%</b>	<b>3.9%</b>
Powys	<b>5,000</b>	<b>2.8%</b>	<b>3.8%</b>
Merthyr Tydfil *	<b>2,100</b>	<b>1.2%</b>	<b>3.6%</b>
Bridgend *	<b>3,900</b>	<b>2.2%</b>	<b>2.8%</b>
Blaenau Gwent *	<b>1,900</b>	<b>1.1%</b>	<b>2.8%</b>
Caerphilly	<b>4,900</b>	<b>2.8%</b>	<b>2.7%</b>
Neath Port Talbot *	<b>2,900</b>	<b>1.6%</b>	<b>2.1%</b>
Rhondda Cynon Taf *	<b>4,800</b>	<b>2.7%</b>	<b>2.0%</b>

Source: StatsWales (June 2016) based on data from Labour Force and Annual Population surveys

\* Based on small sample sizes (between 25 and 40 responses)

## EU migrants by local authority area

The pattern of EU migration is slightly different to that for non-UK born residents as a whole. However, the same six

local authorities have the largest numbers of EU migrants and account for more than half of all EU migrants in Wales.

The variation between areas is smaller than is the case for non-

UK born residents. EU migrants constitute around 1% of the population of Torfaen compared to 5.4% in Newport (Table 3).

**Table 3:  
EU migrants living in local authorities in Wales (ranked in descending order by percentage of population)**

	<b>Number</b>	<b>% of all EU migrants in Wales</b>	<b>% of local population</b>
Newport	<b>7,900</b>	<b>10.0%</b>	<b>5.4%</b>
Carmarthenshire	<b>7,600</b>	<b>9.6%</b>	<b>4.2%</b>
Wrexham	<b>5,300</b>	<b>6.7%</b>	<b>3.9%</b>
Flintshire	<b>5,500</b>	<b>7.0%</b>	<b>3.6%</b>
Cardiff	<b>11,800</b>	<b>14.9%</b>	<b>3.3%</b>
Ceredigion	<b>2,400</b>	<b>3.0%</b>	<b>3.3%</b>
Swansea	<b>6,400</b>	<b>8.1%</b>	<b>2.7%</b>
Pembrokeshire	<b>3,300</b>	<b>4.2%</b>	<b>2.6%</b>
Anglesey *	<b>1,700</b>	<b>2.1%</b>	<b>2.4%</b>
Monmouthshire *	<b>2,200</b>	<b>2.8%</b>	<b>2.4%</b>
Vale of Glamorgan *	<b>3,000</b>	<b>3.8%</b>	<b>2.4%</b>
Conwy	<b>2,700</b>	<b>3.4%</b>	<b>2.4%</b>
Denbighshire *	<b>2,000</b>	<b>2.5%</b>	<b>2.1%</b>
Powys *	<b>2,500</b>	<b>3.2%</b>	<b>1.9%</b>
Bridgend *	<b>2,500</b>	<b>3.2%</b>	<b>1.8%</b>
Blaenau Gwent **	<b>1,200</b>	<b>1.5%</b>	<b>1.7%</b>
Caerphilly *	<b>3,100</b>	<b>3.9%</b>	<b>1.7%</b>
Merthyr Tydfil **	<b>1,000</b>	<b>1.3%</b>	<b>1.7%</b>
Gwynedd **	<b>1,500</b>	<b>1.9%</b>	<b>1.2%</b>
Rhondda Cynon Taf **	<b>2,900</b>	<b>3.7%</b>	<b>1.2%</b>
Neath Port Talbot **	<b>1,500</b>	<b>1.9%</b>	<b>1.1%</b>
Torfaen **	<b>900</b>	<b>1.1%</b>	<b>1.0%</b>

Source: StatsWales (June 2016) based on data from Labour Force and Annual Population surveys

\* Limited quality: based on between approximately 25 and 40 responses

\*\* Low quality: based on between approximately 10 and 25 responses

There is a wide variation across Wales in the proportion of non-UK born residents who are EU migrants. Less than a third of non-UK born residents in Cardiff and Swansea are EU migrants compared with almost two thirds of non-UK born residents in Flintshire and Pembrokeshire (Table 4).

## Country of origin

Analysis by Krausova and Vargas-Silva (2014) shows that the countries of origin from which the largest numbers of non-UK born people came to Wales were Poland (18,023 residents), Ireland (12,175), India (11,874), Germany (11,208) and China

(6,296). The Census data show that migrants from these countries were not evenly distributed across Wales, and that Polish born residents were the least evenly distributed of the top five groups. Their share of the local non-UK born population ranged from 3.8% in Vale of Glamorgan to 38.5% in Merthyr Tydfil.

**Table 4:  
EU migrants as a proportion of non-UK born residents in local authorities in Wales (ranked in descending order by percentage of population)**

	<b>Non-UK born residents (N)</b>	<b>EU migrants (N)</b>	<b>% of non-UK born residents who are EU migrants</b>
Flintshire	<b>8,400</b>	<b>5,500</b>	<b>65.5%</b>
Pembrokeshire	<b>5,100</b>	<b>3,300</b>	<b>64.7%</b>
Bridgend *	<b>3,900</b>	<b>2,500</b>	<b>64.1%</b>
Caerphilly *	<b>4,900</b>	<b>3,100</b>	<b>63.3%</b>
Blaenau Gwent **	<b>1,900</b>	<b>1,200</b>	<b>63.2%</b>
Anglesey *	<b>2,700</b>	<b>1,700</b>	<b>63.0%</b>
Wrexham	<b>8,600</b>	<b>5,300</b>	<b>61.6%</b>
Rhondda Cynon Taf **	<b>4,800</b>	<b>2,900</b>	<b>60.4%</b>
Carmarthenshire	<b>13,300</b>	<b>7,600</b>	<b>57.1%</b>
Monmouthshire *	<b>4,100</b>	<b>2,200</b>	<b>53.7%</b>
Denbighshire *	<b>3,800</b>	<b>2,000</b>	<b>52.6%</b>
Neath Port Talbot **	<b>2,900</b>	<b>1,500</b>	<b>51.7%</b>
Newport	<b>15,300</b>	<b>7,900</b>	<b>51.6%</b>
Powys *	<b>5,000</b>	<b>2,500</b>	<b>50.0%</b>
Ceredigion	<b>4,900</b>	<b>2,400</b>	<b>49.0%</b>
Conwy	<b>5,600</b>	<b>2,700</b>	<b>48.2%</b>
Merthyr Tydfil **	<b>2,100</b>	<b>1,000</b>	<b>47.6%</b>
Vale of Glamorgan *	<b>6,500</b>	<b>3,000</b>	<b>46.2%</b>
Swansea	<b>21,800</b>	<b>6,400</b>	<b>29.4%</b>
Cardiff	<b>41,100</b>	<b>11,800</b>	<b>28.7%</b>
Gwynedd **	<b>5,800</b>	<b>1,500</b>	<b>25.9%</b>
Torfaen **	<b>4,100</b>	<b>900</b>	<b>22.0%</b>

Source: StatsWales (June 2016) based on data from Labour Force and Annual Population surveys

\* Limited quality: based on between approximately 25 and 40 responses

\*\* Low quality: based on between approximately 10 and 25 responses

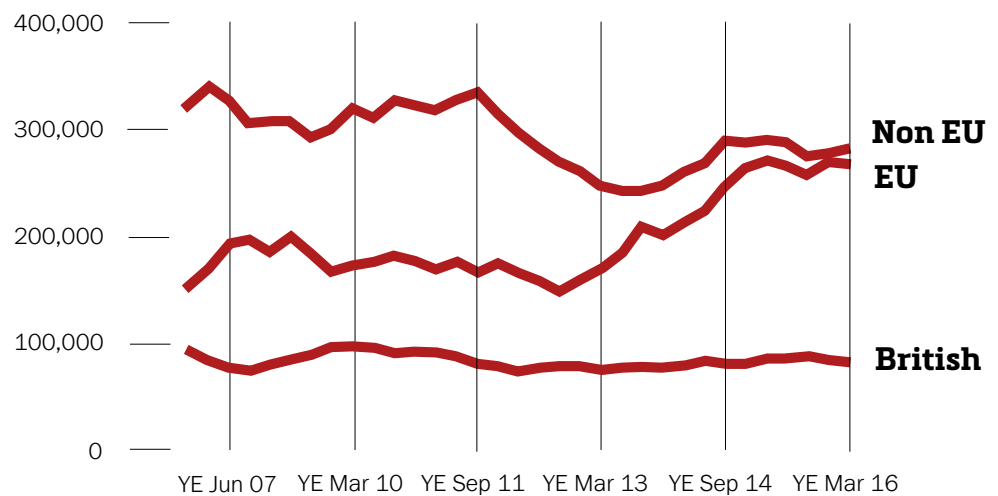
## Increases in migration

The Office for National Statistics (ONS) reports that long-term immigration to the UK from the EU rose sharply between 2012 and 2014 but has since been broadly flat. It also notes that immigration of A2 citizens (from Bulgaria and Romania) have drawn level with A8 (2004

enlargement countries) for the first time (69,000 and 68,000 respectively). The gap between the numbers of non-EU and EU long term<sup>1</sup> migrants to the UK has also narrowed in recent years. By 2016, immigration of EU citizens was estimated to be 268,000, and immigration of non-EU citizens was estimated to be 282,000 (Figure 3).

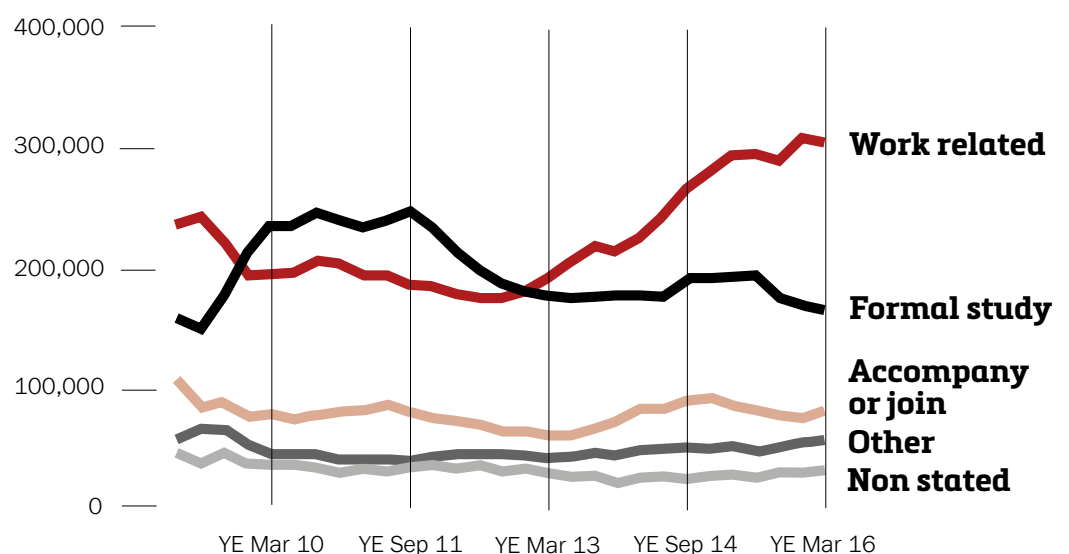
The number of people moving to the UK for work related reasons has risen sharply since 2013, while the number arriving for formal study has declined since 2011 (Figure 4). The majority (62%) of those whose main reason for migration was work-related were EU migrants. The majority (72%) whose main reason was study were non-EU migrants.

**Figure 3:**  
**Long term immigration to the UK by citizenship (2006 to 2016)**



Source: Long Term International Migration based on International Passenger Survey (ONS, 2016). NB: British citizens are those returning to the UK after living abroad for a year or more, or citizens born abroad coming to the UK for the first time

**Figure 4:**  
**Main reason for migration (2006 to 2016)**



Source: Long Term International Migration based on International Passenger Survey (ONS, 2016)

<sup>1</sup> The UN defines a long term international migrant as someone who moves to a new country for a period of at least 12 months.

By 2016, work was the main reason cited by those moving to the UK (by 303,000 people). Almost two thirds (62%) of those who reported that they were coming for work were EU citizens and more than half of EU migrants (56%) arriving for work-related reasons reported they had already secured a job to go to.

Between 2015 and 2016, the number of EU-15 citizens migrating to the UK specifically looking for work increased significantly from 20,000 to 31,000. The ONS comments that this may, in part, reflect weaker labour market conditions in some southern EU-15 countries.

Reflecting to an extent the overall trend for the UK, the proportion

of the population living in Wales that were born abroad increased from 3.9% (114,700 people) to 5.8% (176,600) between 2007 and 2016. Over the same period, the proportion of the UK population born abroad increased from 9.8% (5.9 million) to 13.7% (8.8 million).

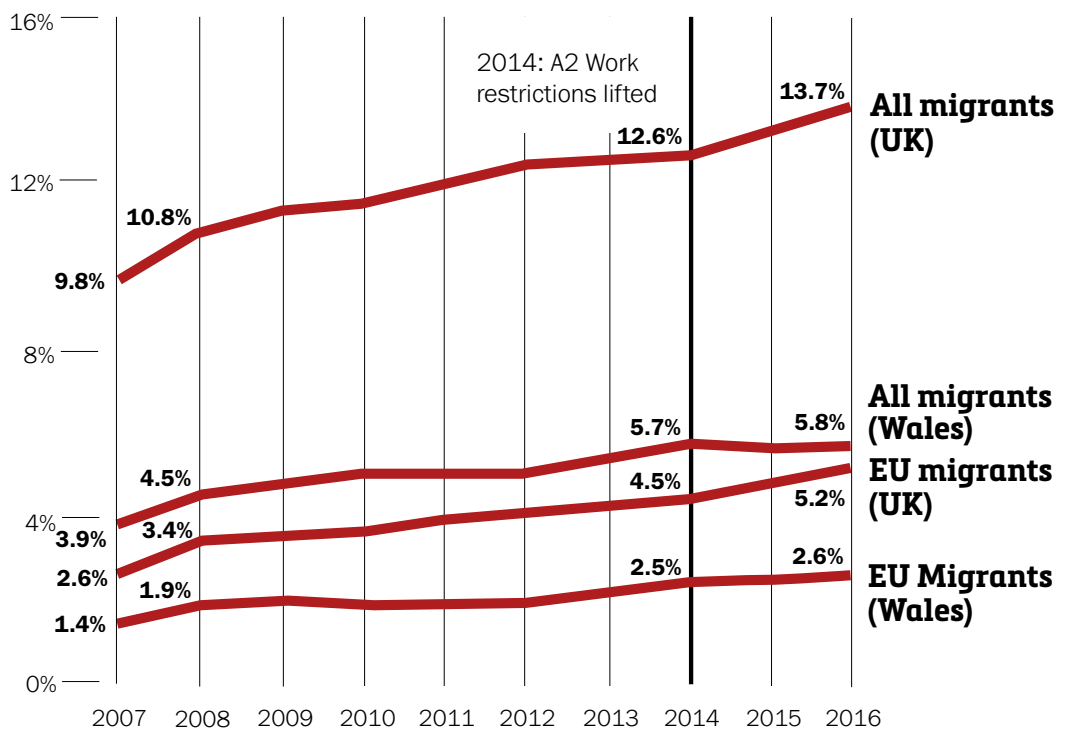
EU migrants living in Wales increased from 1.4% of the population in 2007 (40,100) to 2.6% in 2016 (79,100). For the UK as a whole, the proportion of EU migrants increased from 2.6% (1.5 million) to 5.2% (3.4 million) (see Figure 5).

Existing data are not sufficiently robust to provide an accurate picture of increases by local authority areas right up to present. However, the Oxford

Migration Observatory has analysed changes in migrant populations at local authority level in Wales between 2001 and 2011 using Census data (Krausova and Vargas-Silva, 2014).

They report that over the ten year period the number of residents in Wales who were born outside the UK increased by 82%, from 92,263 to 167,871 but there were wide variations between areas. At the upper end, Merthyr Tydfil recorded an increase of 227% (1,834 people), which was the second highest percentage increase in England and Wales, albeit from a low base. By contrast, Torfaen experienced an increase of 36% (Table 5).

**Figure 5:  
Migrants as  
a proportion  
of the  
population  
in Wales  
and the UK  
(2007–2016)**



Source: StatsWales (June 2016) based on data from Labour Force and Annual Population surveys. In 2014, UK work restrictions on citizens from Bulgaria and Romania were lifted

**Table 5:  
% change in  
non-UK born  
residents  
(2001 to 2011)**

<b>Local authority</b>	<b>Increase in non-UK born population</b>	<b>% increase in non-UK born population (2001 – 2011)</b>
Merthyr Tydfil	<b>1,834</b>	<b>227%</b>
Wrexham	<b>5,308</b>	<b>168%</b>
Swansea	<b>9,274</b>	<b>117%</b>
Newport	<b>6,310</b>	<b>105%</b>
Cardiff	<b>22,849</b>	<b>99%</b>
Carmarthenshire	<b>3,620</b>	<b>91%</b>
Blaenau Gwent	<b>710</b>	<b>90%</b>
Gwynedd	<b>2,755</b>	<b>87%</b>
Powys	<b>2,320</b>	<b>71%</b>
Flintshire	<b>2,621</b>	<b>69%</b>
Rhondda Cynon Taf	<b>2,982</b>	<b>68%</b>
Ceredigion	<b>1,813</b>	<b>66%</b>
Bridgend	<b>1,840</b>	<b>58%</b>
Caerphilly	<b>1,463</b>	<b>53%</b>
Denbighshire	<b>1,322</b>	<b>52%</b>
Monmouthshire	<b>1,318</b>	<b>48%</b>
Neath Port Talbot	<b>1,116</b>	<b>45%</b>
Pembrokeshire	<b>1,736</b>	<b>45%</b>
Vale of Glamorgan	<b>1,745</b>	<b>40%</b>
Anglesey	<b>670</b>	<b>39%</b>
Conwy	<b>1,351</b>	<b>37%</b>
Torfaen	<b>651</b>	<b>36%</b>

Source: Census 2001 and 2011



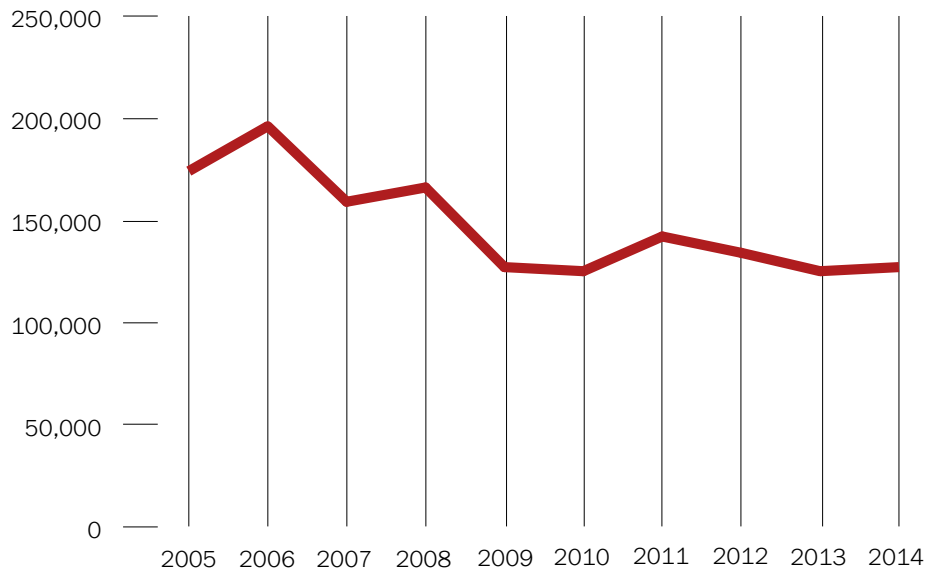
## Migration from Wales

Our rapid review found very little data on migration from Wales to other EU countries. However, according to the International Passenger Survey published by

the ONS, the number of British nationals emigrating from the UK declined from 2006 to 2010 before levelling off (Figure 6). The number of emigrants peaked in 2006 at 196,000. In 2014, the number was 127,000.

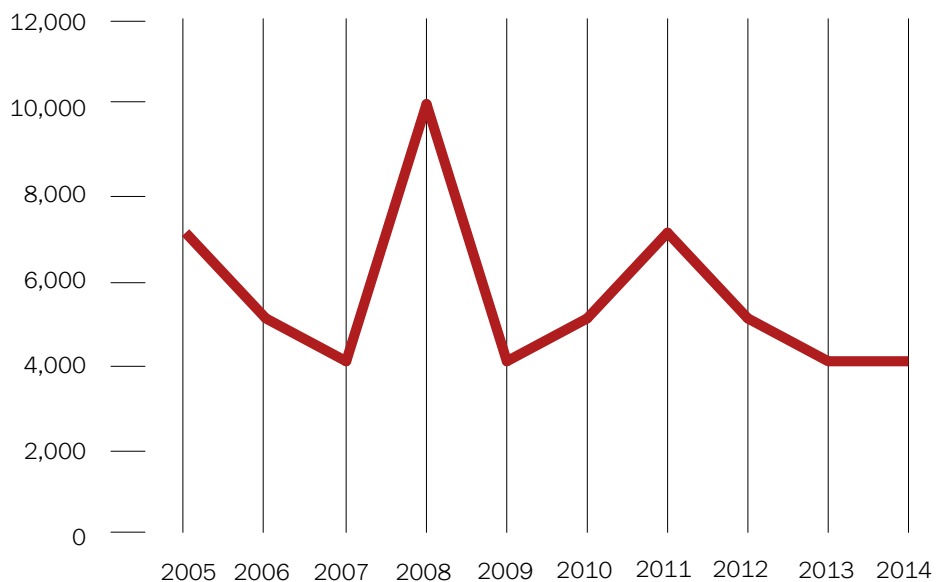
The sample size for Wales is small so the data should be interpreted with caution. However, the pattern of emigration from Wales does not show the same downward trend between 2006 and 2010 as the UK (Figure 7).

**Figure 6:**  
**British**  
**nationals**  
**emigrating**  
**from the UK**



Source: International Passenger Survey data (ONS)

**Figure 7:**  
**British**  
**nationals**  
**emigrating**  
**from Wales**



Source: International Passenger Survey data (ONS)

## Labour Market and Employment Characteristics of Migrants

In 2016, EU migrants in Wales have a higher employment rate than the working age population as a whole. 79% of EU migrants

of working age (16-64) in Wales are in employment compared to 71.3% of the total working age population and 69.3% of all migrants.

This is similar to the pattern in the UK as a whole where the employment rate of EU migrants is 79.5% compared with 73.7%

for the general population and 71.5% for all migrants (Table 6)<sup>2</sup>.

The proportion of people in employment in Wales who were migrants increased from 4% in 2004-07 to 8% in 2015<sup>3,4</sup>, and from 11% to 16% at UK level (Figure 8).

**Table 6:**  
**People aged 16-64 years in employment (2016)**

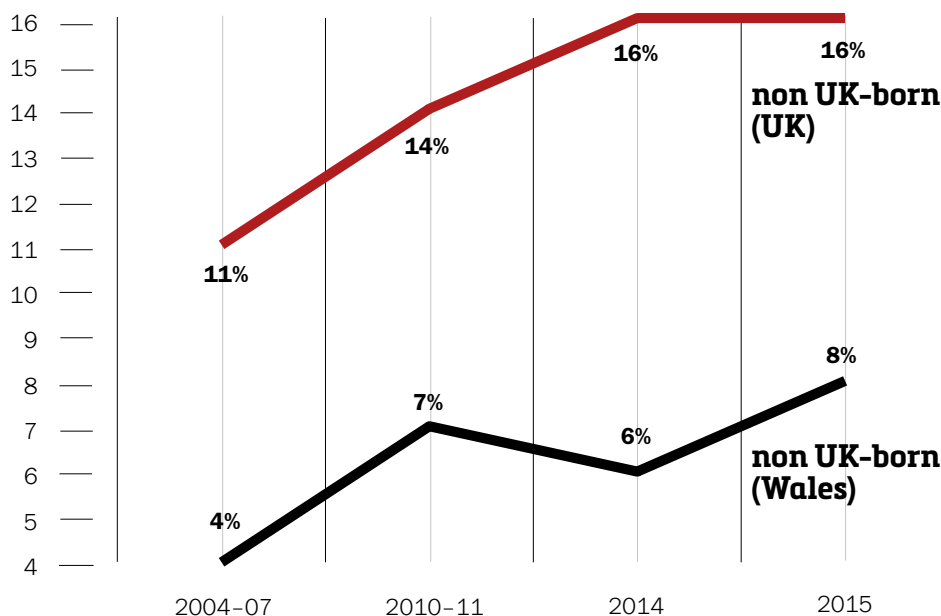
	Wales		UK	
	Number in employment	% in employment	Number in employment	% in employment
EU migrants	48,400	79.0%	2,135,600	79.5%
All migrants	97,000	69.3%	5,137,000	71.5%
Total population	1,360,400	71.3%	30,130,400	73.7%

Source: StatsWales (June 2016) based on data from Labour Force and Annual Population surveys

**Figure 8:**  
**% in employment who are migrants**

**Percentage of those in employment in Wales who are non-UK born**

— Non UK-born, UK  
— Non UK-born, Wales



Source: Markaki and Vargas-Silva (2016) based on Labour Force Survey

<sup>2</sup> National Insurance data show that there are 7,760 non-UK nationals in Wales of working age who are claiming benefits (DWP, 2016). These benefits include in-work and out-of-work benefits, covering Jobseeker's Allowance; ESA and Incapacity Benefits; Lone Parent Income Support; Carer's Allowance; Income Support and Pension Credit; Disability Living Allowance and Personal Independence Payments; and Widow's Benefit.

<sup>3</sup> Figure 8 and Tables 7-10 are based on research by Markaki and Vargas-Silva (2016), who did not split non-UK born into EU and non-EU. The Labour Force Survey (LFS) does allow for this, although sample sizes might preclude meaningful analysis (see note below).

<sup>4</sup> Estimates using the LFS are subject to significant sampling variability, as with any sample survey. In each quarter of the LFS, between 143 and 218 working age respondents who reside in Wales are non-UK born. To increase sample size and improve the reliability of the statistics, the analysis pools together all quarters for 2004-2007 (2,798 respondents), 2010-2011 (1,557 respondents), and four quarters from 2014 (773 respondents) onwards. For further discussion see the data sources and limitations section of the Migration Observatory website.

Migrants living in Wales have a slightly higher rate of self-employment than those born in the UK (Table 7).

On average, migrant workers in Wales earn slightly less than workers born in the UK (Table 8).

Migrant workers are more likely than non-migrants to be employed

in ‘elementary occupations’ (i.e. performing simple and routine tasks that often require physical effort) and, to a lesser extent, professional services (Table 9).

The largest proportion of migrant workers work in public administration,

education and health (34%), followed by distribution, hotels and restaurants (20%) and manufacturing (16%). The proportion of UK born workers in these industries is similar, with the exception of manufacturing (Table 10).

**Table 7:**  
**% of working age population who are employees or self-employed (2015)**

	Wales		UK	
	Employees	Self-employed	Employees	Self-employed
Born in UK	<b>61%</b>	<b>9%</b>	<b>64%</b>	<b>10%</b>
Migrants (non-UK born)	<b>57%</b>	<b>11%</b>	<b>59%</b>	<b>11%</b>

Source: Markaki and Vargas-Silva (2016) based on Labour Force Survey

**Table 8:**  
**Average annual salary of workers (2015)**

	Wales	UK
Born in UK	<b>£23,417</b>	<b>£26,050</b>
Migrants (non-UK born)	<b>£22,478</b>	<b>£26,222</b>

Source: Markaki and Vargas-Silva (2016) based on Labour Force Survey

**Table 9:**  
**Occupation groups in Wales for those of working age (2015)**

	Share of UK born	Share of migrants (non-UK born)
Professional	<b>18%</b>	<b>22%</b>
Elementary	<b>12%</b>	<b>19%</b>
Caring, leisure and other services	<b>11%</b>	<b>12%</b>

Source: Markaki and Vargas-Silva (2016) based on Labour Force Survey

**Table 10:  
Industries in  
Wales for those  
of working age  
(2015)**

	<b>% of UK born workers</b>	<b>% of migrant (non-UK born) workers</b>
Public admin, education and health	<b>34%</b>	<b>34%</b>
Distribution, hotels and restaurants	<b>19%</b>	<b>20%</b>
Manufacturing	<b>11%</b>	<b>16%</b>
Other industries	<b>36%</b>	<b>30%</b>
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

Source: Markaki and Vargas-Silva (2016) based on Labour Force Survey

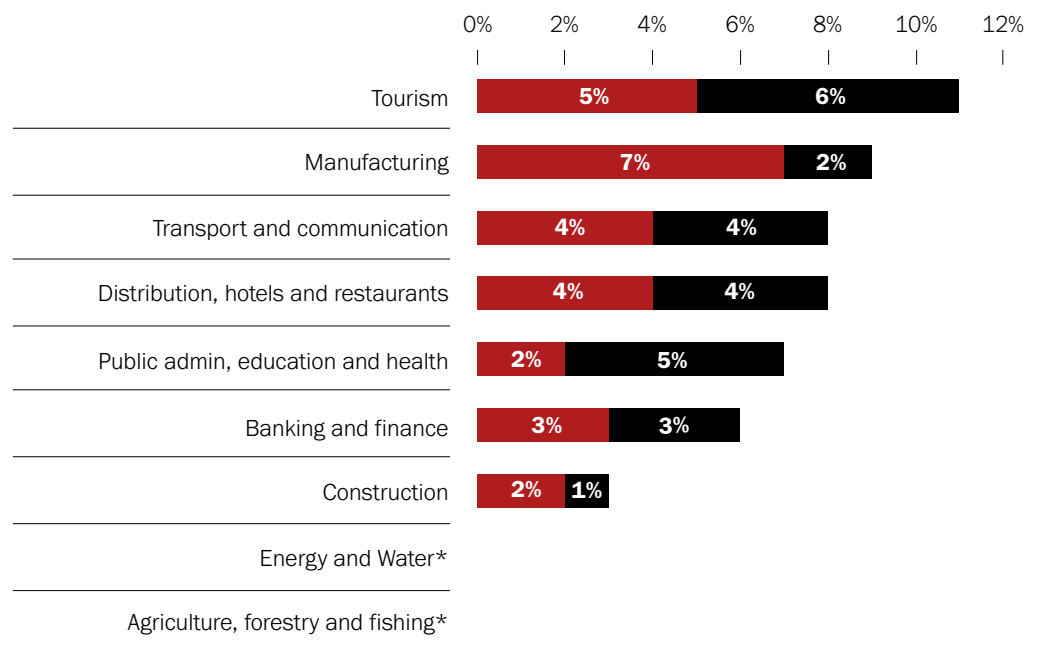
Analysis suggests that tourism (11%) and manufacturing (9%) have the largest proportion of migrants in their workforce.

In most sectors, EU and non-EU migrants account for broadly the

same proportion of the workforce but there are exceptions. There are more than three times as many EU migrants as non-EU migrants in manufacturing, while for public administration,

education and health, there are more than twice as many non-EU migrants as EU migrants (Figure 9).

**Figure 9:  
Migrants as a proportion of workforce in Wales by Industry**



■ % of workforce that are EU migrants  
■ % of workforce that are non-EU migrants

Source: Welsh Government

\*For 'energy and water' and 'agriculture, forestry and fishing', it is estimated that EU migrants and non-EU migrants each account for less than 1% of the workforce

## Public Attitudes to Migration

Scully (2016) found that 29% of people in Wales who were questioned as part of the Welsh Election Study reported that they had an unfavourable view of Eastern Europeans who come to live in Wales. Additional (as yet unpublished) analysis of the data

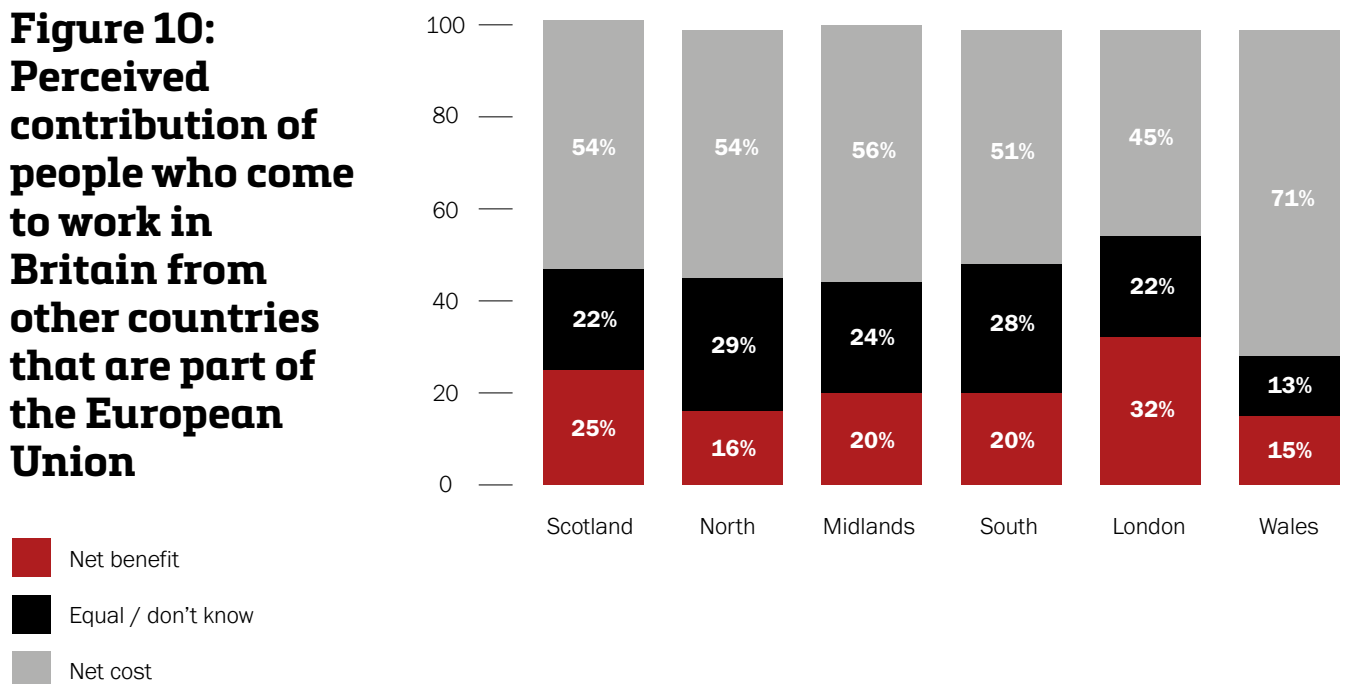
suggest that age, educational attainment and income level are all much stronger predictors of views towards Eastern Europeans than where people live.

The British Social Attitudes Survey found that 71% of respondents from Wales thought that EU migrant workers brought more costs than benefits which was a

larger proportion than in any other part of Britain (Figure 10).

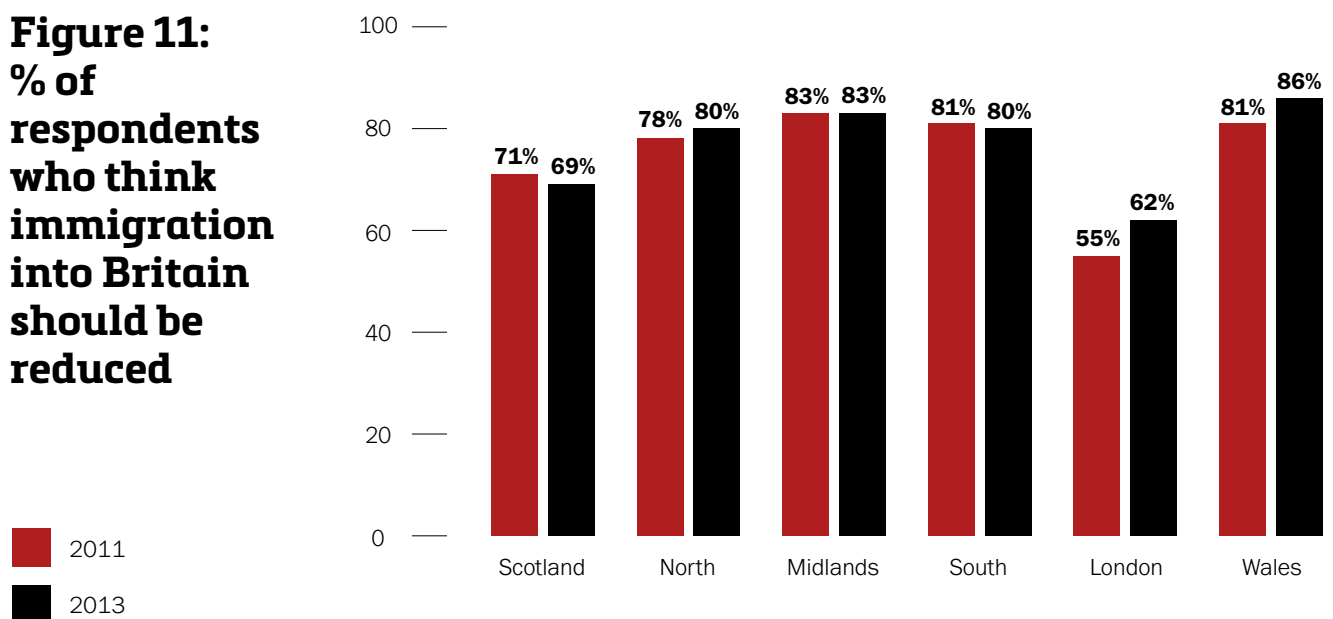
Although the sample sizes are small and the data should therefore be treated with caution, people in Wales seem more likely than those in other parts of Britain to favour reducing immigration, and support for this view increased between 2011 and 2013 (Figure 11).

**Figure 10:**  
**Perceived contribution of people who come to work in Britain from other countries that are part of the European Union**



Source: British Social Attitudes Survey (2013) based on 1,055 respondents (unweighted)  
Sub-sample sizes are quite small, so quality of data is limited

**Figure 11:**  
**% of respondents who think immigration into Britain should be reduced**



Source: British Social Attitudes Survey (2011 and 2013). Sub-sample sizes are quite small, so quality of data is limited

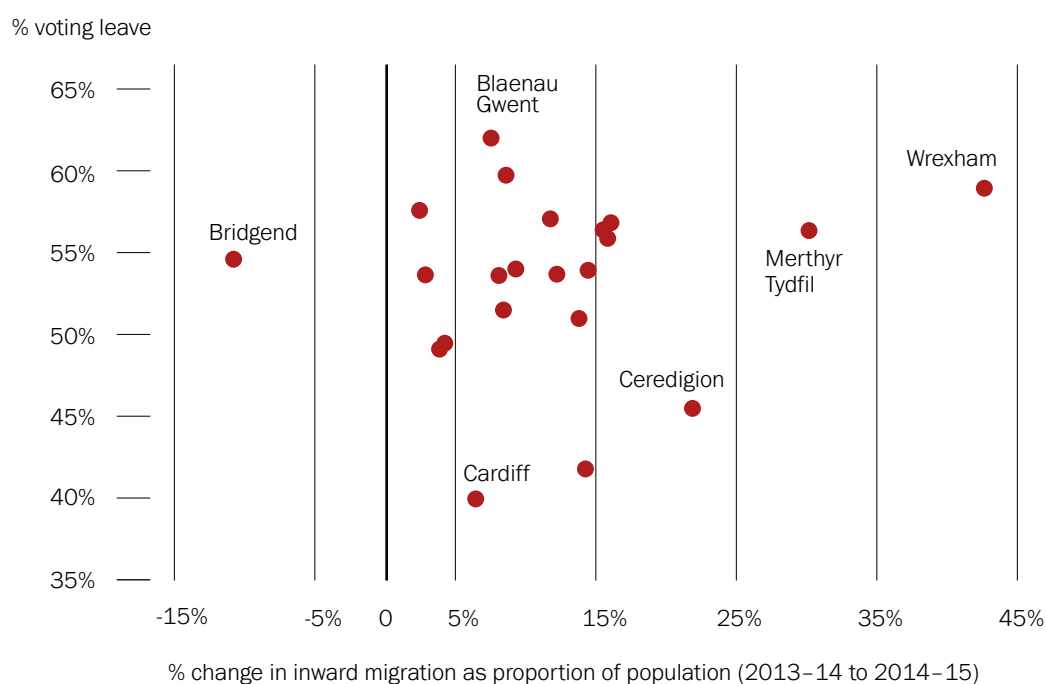
At the UK level, public salience of immigration as an issue is at an all time high. In September 2015, 56% of respondents to the Economist/Ipsos Mori Issues Index mentioned immigration as one of the most important issues facing Britain. This is the highest recorded figure for immigration since the index began in the 1970s and Ipsos

Mori (2016) note that there is a growing generational divide, with older people becoming more concerned than younger people about immigration.

Ipsos Mori also found that 41% of respondents had changed their views on immigration ‘a little’ or ‘a lot’ since the 2010 general election, with 86% of these becoming more worried.

Overall, change in levels of inward migration into an area is not strongly correlated with voting patterns in the EU referendum. Wrexham, Ceredigion and Merthyr Tydfil had the highest percentage changes in inward migration as a proportion of their populations between 2013-14 and 2014-15 but the proportion voting leave in these areas varied widely (Figure 12)<sup>5</sup>.

**Figure 12:**  
**Leave vote**  
**and the**  
**changes in**  
**inward**  
**migration as**  
**a proportion**  
**of population**



Source: Welsh Government data

## Policy Implications

The initial evidence that we have been able to draw together in this note seems to point to a number of potentially important policy implications.

First, the relatively low level of migration from the EU to Wales suggests that restrictions on free movement of people may have less impact in broad aggregate terms (in terms of restricting labour market supply or ‘freeing up’ employment opportunities for UK-born workers) than in other parts of the UK.

Second, the uneven distribution of EU migrants living in Wales means that the size of the impact of restrictions on free movement may vary between communities, or spatially concentrated industries and services.

Third, the relatively low overall level of immigration into Wales may mask the vulnerability of some public services and economic sectors to restrictions on free movement. Figure 9 shows that tourism and manufacturing might be more susceptible than other sectors. It has also been suggested

that the Welsh NHS could be vulnerable to restrictions on the number of EEA healthcare professionals working in the UK (Zolle, 2016).

Fourth, while the level of public concern about immigration has increased in recent years, levels of migration to most Welsh communities have remained relatively low. To the extent that the leave vote was driven by factors other than direct experience of immigration, restrictions on free movement may not address the underlying causes of dissatisfaction in these areas.

<sup>5</sup> It is also noteworthy that for all areas apart from Cardiff, annual inward migration was less than 1% of the existing population. Although Wrexham, Ceredigion and Merthyr Tydfil show the largest proportional change, this only represents between a 0.1 and 0.2 percentage point increase in inward migration as a proportion of the local populations (e.g. inward migration as a proportion of the total population increased from 0.4% to 0.6% in Wrexham).

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## Next Steps

This report is based on a rapid review of the available secondary data.

The initial conclusions that we have presented could, and we believe should, be tested through more in depth analysis of administrative data which would provide a better understanding of recent migrant flows and the role that EU migrants currently play in Wales.

This analysis could also help to identify areas and sectors where restrictions on free movement are likely to have the biggest impacts and explore the impact of different scenarios in terms of restrictions on free movement of people.

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