Grant Thornton

The impact of the EU transition on trade in Wales

Final Report

November 2020

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Dear Tim,

Brexit Transition Support Programme – Trade analysis

We have pleasure in enclosing a copy of our report in accordance with your instructions dated 30 July 2020. This document (the **Report**) has been prepared by Grant Thornton UK LLP (**Grant Thornton**) for The Welsh Local Government Association (the **Addressee**) in connection with analysis into the implications of a Free Trade Agreement and a no trade deal World Trade Organisation outcome on trade flows in Wales (the **Purpose**).

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General

The Report is issued on the understanding that the management of the WLGA have drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report up to the date of signature of this Report. Events and circumstances occurring after the date of our Report will, in due course, render our Report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out of date Report. Additionally, we have no responsibility to update this Report for events and circumstances occurring after this date.

Contacts

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Yours faithfully

Grant Thornton UK LLP

Contents

Table of contents

Issue History

Version	Date Circulated	Recipient List
WLGA report – Trade Impacts – Draft Final 06112020	20201106	Tim Peppin
WLGA report – Trade Impacts – Draft Final 131120	20201113	Tim Peppin
WLGA report – Trade Impacts – Final 20112020	20201120	Tim Peppin

1 Introduction

The European Union (EU) is Wales' largest trading partner, accounting for 61% of all goods exports in 2019. It is a dependency that is notably greater than the United Kingdom (UK) as a whole where the EU only accounted for 48% of all exports. Therefore, when the UK leaves the Single Market and the Customs Union on the 31st December 2020 this trading relationship will change. It is a change that will bring with it a number of economic and social impacts. In the short term it will result in a range of new tariff and non-tariff barriers, while over the longer term it will change trade flows and in doing so affect a number of different economic outcomes.

The purpose of this report is to support Welsh Local Authorities in navigating some of this change by drawing on quantitative and qualitative data around the scale and nature of the trade impacts that could result under both a 'Deal' and 'No Deal' scenario.

The focus of this report centres around the impact on goods exports and the potential consequences for businesses.

To do this, the report analyses the impacts upon the traceable exports of goods that move out of Welsh ports.

Alongside these goods exports there will also be service exports. While these have not been modelled (due to data limitations at the required geographic granularity), it is necessary at the outset to recognise the importance of service exports to the Welsh economy, with the Office for National Statistics (ONS) estimating the total value of service exports to the Welsh economy at £7.4bn in 2018[1]. It is estimated that the majority of Welsh service exports are exported to Non-EU countries accounting for 59% of service exports in 2018. The EU transition is expected to have a negative impact on service exports along with goods exports through the change in regulations, standards, etc that could significantly hinder the flows of people and data as well as placing additional financial burden on organisations in order to comply with differing regulation which could range from the need to develop new contracts with differing clauses through to the need to consider setting up a physical presence within the EU.

In addition to exports, there will also be an impact on the volume of imports into Wales, although these have not been the focus of this report, primarily because there is a lack of suitably robust data in terms of country of origin coverage, time series and sector.to enable us to robustly model the impacts..

The report does not attempt, nor intend, to replace or replicate the broad suite of policy and academic research in relation to trade. Rather, it seeks to provide localised insight to specifically support Welsh Local Authorities in prioritising their activities and actions in order to best mitigate risks and maximise opportunities.

The next chapter sets out the methodology we have followed in developing this report before providing a high-level overview of the relevant policy and geographic context. Next, the report sets out the findings from our econometric modelling and stakeholder consultations before concluding with a suite of implications and actions for local authorities to consider.

We would like to formally record our thanks for all those who gave up their time and who provided contributions to this work. It is very much appreciated, particularly given all of the additional pressures resulting from COVID-19.

[1] 'International exports of services from subnational areas of the UK: 2018' (2020)

2 Methodology

1 Introduction

Our approach to this work was based on two core components: econometric modelling and stakeholder consultation. Informed by a scoping and data review at the outset of the project, these two separate – but inter-related – components have provided a rich source of evidence. Before presenting these findings we set out below a high-level overview of our methodological approach.

2 Econometric modelling

Our approach to the econometric modelling has been guided by a HM-Treasury Paper[2] that applied a ‘Gravity Model’ approach to estimating the impact of the EU transition under various scenarios upon UK trade. This HM-Treasury paper found that a Free Trade Agreement (FTA) between the European Union (EU) and United Kingdom (UK) could reduce UK trade by 18%. Given the level of acceptance for using a gravity model approach for trade analysis from economic literature, a list of literature reviewed can be seen in Appendix A, and HM-Treasury’s adoption of the approach, Grant Thornton assessed a gravity model as being the most appropriate methodology to suitably understand the export effect of operating under a ‘No Deal’ or ‘Deal’ scenario for Wales.

A gravity model assesses the relationship between the size of an economy, the value of trade (imports and/or exports) and the distance between the source country and the recipient country. Through these measures, the gravity model highlights the relationship between the size of the economy and trade value (imports and/or exports).

It also examines the relationship between trade and distance, typically the distance is inversely related to the level of trade conducted so the greater the distance between countries, the lower the level of trade. It can be assumed that the level of transport costs is a potential explanation for this inverse relationship, as the further the export partner the higher the expected transport costs resulting in an inverse relationship. A full description of the workings and purpose of ‘Gravity Models’ can be found from the Office for Budget Responsibility (OBR)[3].

Grant Thornton reviewed academic and policy papers to develop the most appropriate gravity model for the task of assessing exports from Wales. The following equation was then adopted.

Econometrics equation 1

$$Ln(Yij) = \beta 0 + \beta 1Ln(GDPij) + \beta 2Ln(Popij) + \beta 3Ln(DISTij) + \beta 6EU\text{-}NonEUij + \beta 7EU\text{-}EUij + \beta 8FTAij + \mu ij$$

Note: *EU-NonEU, EU-EU and FTA variables are dummy variables. All variables in Logarithmic terms will show the relative change in the data series values and not the absolute value change.*

Where:

Yij = Export value between source and recipient country;

GDPij = Gross Domestic Product (GDP) of source and destination country;

POPij = Population of source and destination country;

[2] ‘The Long-Term Economic Impact of EU membership and the alternatives’ (2016)
[3] Brexit and the OBR’s forecasts (2018)

DISTij = Distance between source and destination country;

EU-NonEUij = Dummy variable showing either the source or recipient country is a EU member;

EU-EUij = Dummy variable where both the source and recipient country are members of the EU; and

FTAij = Dummy variable showing if source or recipient country operates under a FTA with the EU.

The above econometric equation represents the 'gravity model' proposed by Grant Thornton to estimate the trade impacts. The majority of variables included in the equation have been expressed in logarithmic terms (Ln), which will show the relative change in the data series rather than the absolute value change. Additionally, the EU-Non-EU, EU-EU and FTA variables included are constructed dummy variables which represent the specific countries relationship between the source (i) and recipient country (j) in any given year.

Once the equation has been solved, each variable will display a coefficient (β) which represents the relationship and interaction between itself, trade and the other variables. All coefficients (β) have been numbered differently to highlight their distinctive variable and their interaction. Whereas the variable β0 represents the constant or intercept of the regression. The variable µij represents the error term of the regression and represents the margin of error, capturing the unpredictable effects.

Data was collected for a cohort of 41 countries – the current 28 members of the EU as well as a selection of non-EU countries with whom the UK are currently undertaking trade negotiations (e.g. New Zealand, Australia, USA, etc.) – covering the years 2015 to 2018. In total, a sample size of around 6,600 observations (which included 41 country pairs for the years 2015 to 2018) formed the basis for the econometric analysis.

Goods export data was sourced from the UN COMTRADE database for each year and country. The UN COMTRADE data provides a profile of exports by country for the past 58 years, with data being available by Standard International Trade Classification (SITC) grouping. The goods export data contained within the UN COMTRADE database is reported in US Dollars ($) and formed the backbone of the analysis conducted. It was deemed most appropriate to examine the export of goods given the impact a potential 'Deal' or 'No Deal' will have on ports, as service exports will be less. Other data points are:

- GDP data for each country and year, with prices being in US ($) Dollars Purchasing Price Parity from OECD;
- Population data for each country and year from OECD; and
- Distances between countries.

3 Consultations

While the econometric modelling provided the foundations for this assignment, there was awareness from the outset that econometric models can only tell 'part of the story' and therefore a series of stakeholder consultations were undertaken. The aim of these was to explore perceptions of the issues and challenges on the ground, in relation to leaving the EU and trade, and to help – by drawing on specific expertise – contextualise the findings. In total 22 consultations were undertaken involving 28 individuals between August to November 2020 across the following types of organisation:

- Welsh local authorities (9 individuals)
- Port/airport authorities (8 individuals)
- Sector bodies (7 individuals)
- Businesses (4 individuals)

A full list of these organisations can be found in Appendix B.

Each consultation was conducted via video call given the current restrictions in place as a result of COVID-19 and lasted between 45 minutes and one hour on average. Notes of the interviews were taken during the meeting and participants were assured at the outset of the confidential nature of the interviews. Therefore, in order to retain anonymity we deliberately have not provided direct quotations. Our view was that given the geographical and sector focus of individual consultees anonymous quotes could still be attributable to particular organisations if not individuals.

The first round of consultations was with the local authorities and took place during the months of August and September. A semi-structured topic guide was used to guide the conversation, covering questions relating to the nature of the local port/airport, its role in the local economy, risks/opportunities from the EU transition related to trade (and more generally) and views on other related policy issues such Freeports, border control points and the Northern Ireland Protocol. Theses consultations also provided an opportunity to gather contact details for key personnel at the different port/airport authorities.

Please see Appendix C for a copy of the local authorities Topic Guide.

Consultations with the port/airport authorities largely took place during October. Like the local authority consultations these were guided by a semi-structured topic guide covering a range of topics including the nature of the port, the main type of goods and the flow of goods once they leave the port, the role the port plays in the local economy, the impact of 'Brexit', views on issues such as the Northern Ireland protocol and Freeports and what support could help to mitigate risks. .

Please see Appendix C for a copy of the port authorities Topic Guide.

During October, and informed by the emerging outputs from the gravity model, we also undertook consultations with relevant sector bodies including:

- Make UK - manufacturing
- Steel UK
- Food and Drinks Federation
- Aerospace Technology Institute
- Welsh Automotive Forum

These consultations – again guided by a semi-structured topic guide – focused more on specific sectoral risks and opportunities, the extent to which Wales was more or less exposed than the rest of the UK and the added risks caused by Covid-19. Alongside this the consultations also covered how prepared businesses were and how this might vary between different types of business, what would help them to prepare better and what support would best help. Consultees were also asked about the Northern Ireland protocol and Freeports.

Please see Appendix C for a copy of the sector bodies and businesses Topic Guide.

Due to the timing of the work and the extensive impacts of COVID-19 it has been difficult to engage with businesses directly. The original intention had been to survey businesses, however due to the global pandemic and the resulting pressure businesses were facing it was agreed with the WLGA not to do this. Therefore, the perspective of business has been largely informed by the relevant sector body. We were however able to consult directly with three businesses in early November.

4 Wider feedback

Alongside the consultations, emerging findings from the modelling and analysis were also presented and discussed in three forums:

- with a group comprising key officers from the Welsh Local Government Association (WLGA) and Welsh Government;
- the Local Government (EU) Preparedness Advisory Panel; and
- the WLGA Brexit Coordinators.

Through the discussion of the findings and the questions asked these meetings provided valuable feedback and helped to shape the project and the nature of this report. For example, this included providing different geographical cuts of the modelling results; or ensuring that the report focused on the key findings and actions that local authorities can take in response to the challenges acknowledging the limited time and capacity available between now and the 31 December 2020.

5 Analysis and synthesis

Analysis and synthesis occurred as the interviews took place with time dedicated after the interview process for the final analysis. In analysing and synthesising the findings from the stakeholder research process, four elements were considered.

Synthesis

To synthesise the different evidence emerging from the interviews and feedback from the different presentations of the interim findings we identified a series of themes that were emerging from the responses .This approach enabled us to identify recurrent themes and patterns in the responses and any major variance between stakeholders. It also enabled us to provide a sense of scale around the findings i.e. 'the majority of stakeholders were of the opinion that…", "the general consensus is…" etc.

In addition to noting how widely shared a view was, as far as possible, we also reflected on how strongly held a particular view was. Similarly, we noted how important interviewees' thought an issue was. This was important because for some points while there was widespread agreement on an issue the interviewees' did not see it as important. Conversely, there were instances where there was agreement that an issue was important but there were different views about it (eg border control points).

Triangulation

In synthesising the results we continually looked to triangulate the findings between different stakeholders. The greater the level of triangulation, the more weight we were able to place on the evidence.

In addition to triangulating the findings between different stakeholders, we also sought to set the findings in the context of other knowledge, research and indeed government guidance around trade and the EU transition.

Variance

Alongside the process of triangulation, we also reflected on the level of variance between stakeholders. Variance was not necessarily seen as a positive or negative, but it did need to be acknowledged, either in highlighting strong consensus or caveating findings.

Quality

Throughout the analysis we also considered the 'weight' that can be placed on each finding. This quality assessment was made on the basis of:

- **Transparency** – was there a vested interest in making a particular point?
- **Accuracy** – Is what we have been told well grounded?
- **Corroboration** – Are other stakeholders saying the same things?
- **Relevance** – Was the point made in relation to this specific line of enquiry
- **Credibility** – How well placed is the respondent to comment?

3 Geographical and policy context

1 Introduction

Alongside the methodological approach it is also important to briefly set out the geographical and policy contexts. This is by no means an exhaustive survey, but rather a short summary of some of the key contextual issues that are important in shaping both the findings and the implications presented in this report.

2 The geographical context

Access to national and international markets

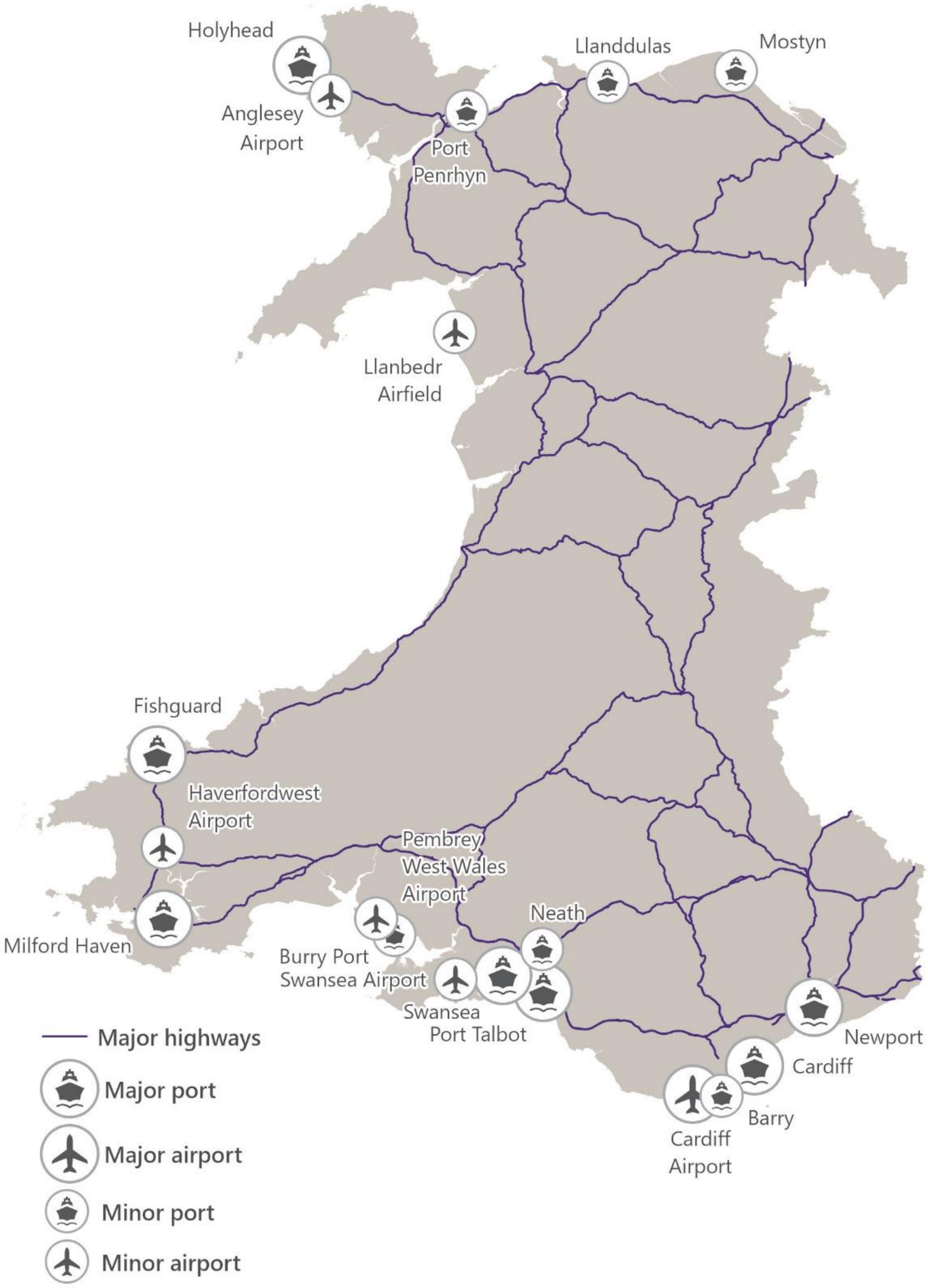
Wales acts as a key land bridge between the UK, Ireland, and continental Europe, providing easy access for both intra- and international trade. It is estimated that 36% of unitised exports to EU continental ports transit from Ireland via the UK land bridge[4]. This geographical context is fundamental to many of the potential opportunities and impacts that leaving the EU may have on the country's trade.

In addition to hosting strong economies across Wales itself, the proximity of Welsh populations to key English hubs makes it an attractive region of the UK for residents and businesses alike. Cardiff, as the Welsh capital, is served by its own international airport with connections to key European cities, as well as being within 2 hours of London Heathrow for further travel to the rest of the world. The north and mid Wales regions also benefit from their proximity to large urban areas and international connection points such as Birmingham, Liverpool, and Manchester.

The network of road and rail connecting Wales to England and the rest of the UK has provided free movement of people and goods for centuries, while the air and sea ports provide further access to international economies and act as crucial nodes for international trade. This network of roads, airports and ports can be seen in Figure 1.

[4] The Implication of Brexit on the use of the Land bridge, Irish Maritime Development Office, 2018

Figure 1 Welsh transport network



Source: Grant Thornton

Welsh Ports

Welsh ports in particular act as a crucial connection for freight and passenger movement. Figure 1, shows that the Welsh coastline hosts seven major ports (Holyhead, Fishguard, Milford Haven, Swansea, Port Talbot, Cardiff and Newport), in addition to numerous smaller ports. Collectively, Welsh ports saw a total of 49,100 tonnes of freight traffic in 2018[5], the latest available data. Of the traffic at major ports 84% was foreign traffic, with 60.1% being foreign imports.

[5] statswales.gov.wales/Catalogue/Transport/Sea

While each port plays a unique role in its local economy, the Centre for Economic and Business Research split the activities of Welsh ports broadly into three categories[6]:

- **Ports industry and steel** – recognised as a strategically important industry for many supply chains, particularly in south Wales and Port Talbot the steel industry remains an important sector in terms of exports and employment. Wider ports industry activities include activities such as warehousing, storage, and other freight transport.

- **Marine renewable energy production** - the Irish and Celtic Seas offer opportunities for off-shore wind farms and renewable energy turbines. Ports in the north of Wales, for example the Port of Mostyn, are key locations for this sector in addition to south-west ports such as Pembroke Dock, which was recently granted £60 million for the Pembroke Dock Marine project to deliver a world-class centre for marine engineering.

- **Maritime and tourism** – both for coastal tourism and access to Ireland, the Welsh ports maintain regular passenger transport to the Republic of Ireland from Holyhead and Fishguard. Holyhead is the UK's second busiest ferry port after Dover.

The volume of traffic at each of the ports in 2018 ranged from 30,900 tonnes through Milford Haven, to less than 100 tonnes at Mostyn. This variation in scale of operations, alongside the range of sector strengths for each port, highlights the importance of looking at both the national and regional impacts of the EU transition.

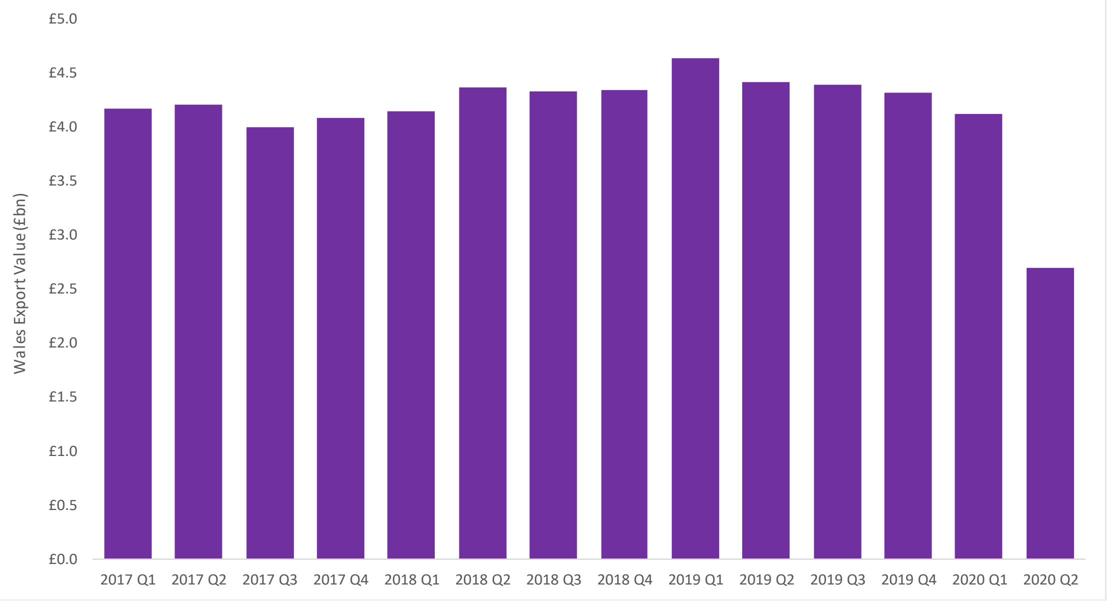
3 Welsh exporting context

The import and export markets are important for Welsh businesses and consumers alike. While exports provide expanded market opportunities, imports provide competition and keep prices low for consumers. Based on analysis of HMRC exports Wales exported around £2.7 billion in Q2 2020, accounting for approximately 4.5% of all UK exports. It should be noted however that for both the UK and Wales, exports during Q2 2020 were significantly lower than the same quarter in 2019 – with just over £4.4 billion (Wales) and £84bn (UK) – highlighting the scale of the impact of the COVID-19 lockdown restrictions on business activity.

Under normal circumstances exports from Wales average c£4.2 billion of goods per quarter and around £17.1 billion annually. Figure 2 shows the trend in Welsh exports since Q1 2017, revealing a relatively consistent trend, bar Q2 2020, where the impact of COVID-19 restrictions on business activity is evident.

[6] The economic contribution of the Maritime Sector in Wales, Cebr 2019

Figure 2 Total export values (£bn), Wales, Q1 2017 - Q2 2020

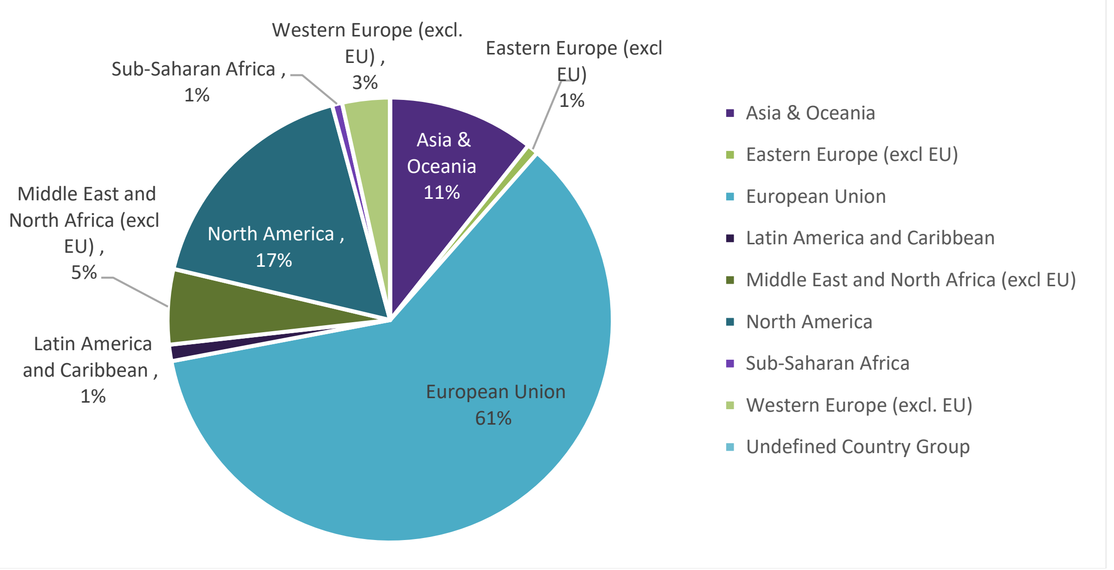


Source: HMRC Regional Trade Statistics & Grant Thornton Analysis

A wide range of goods are exported from Wales and a wide range of destinations served, including EU and Non-EU countries. Figure 3 provides a breakdown of Wales exports by destination (EU and Non-EU) for 2019. The majority of Wales' goods are exported to other EU countries, with this market accounting for 61% of all exports in 2019. In comparison, EU exports from the UK as a whole accounted for only 48% of exports made in 2019.

It has been widely recognised in policy documents that Wales' and the UK's proximity to Europe explains why most of the trade is with European countries. Welsh Government has highlighted this 'trade gravity' as a primary reason that free trade deals with other countries would unlikely compensate for the loss of access to the EU single market[7].

Figure 3 Exports destinations as % of total exports, Wales, 2019



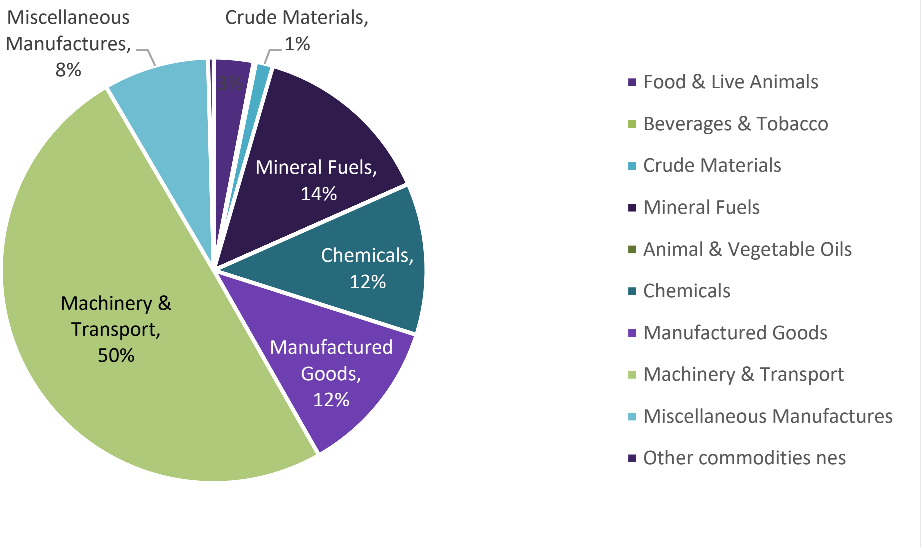
Source: HMRC Regional Trade Statistics & Grant Thornton Analysis

[7] Trade Policy: the issues for Wales, Welsh government, 2018

Sector strengths for Wales become apparent when looking at the total exports per sector. Reflective of the major ports and steel activities, in 2019 exports of Machinery & Transport accounted for 50% of total exports. Figure 4 shows a complete breakdown of the exports made by Wales in 2019 by SITC grouping.

Given that many of these sectors are, according the Office for Budget Responsibility[8], also 'at risk' because of COVID-19, it underlines the challenges and threats currently facing Welsh businesses and in particular the country's export economy[9].

Figure 4 Total exports by SITC codes (% of total exports), Wales, 2019



Source: HMRC Regional Trade Statistics & Grant Thornton Analysis

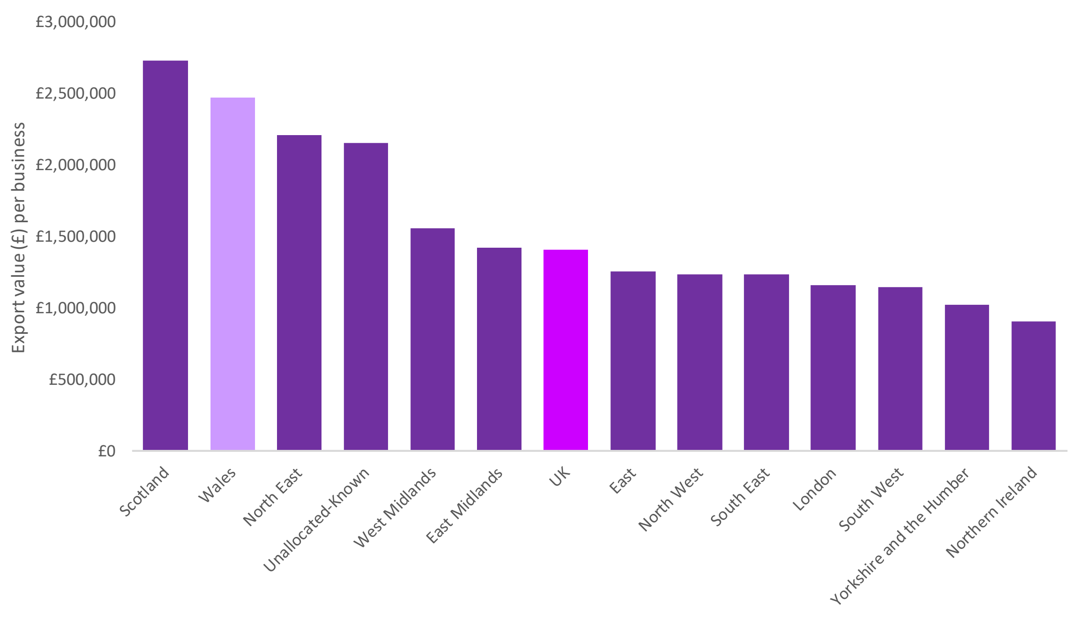
Export values, destination markets and the overall types of goods being exported are important contextual points for assessing how various trade deals might impact the Welsh economy. It is equally important to understand Welsh businesses export propensity and how export focussed business are – i.e. are exports skewed by being undertaken by one or two large firms or are exports undertaken by a significant cohort of businesses.

In 2019, Wales ranked 2nd of all the UK regions – including any Unallocated exports – for exports (EU & Non-EU) made per business (

Figure 5). Welsh businesses export around £2.5m worth of goods on average, compared to £1.4m per business in the whole UK. This highlights the higher level of export propensity among Welsh businesses compared to the average UK business, while also highlighting the importance of exports to Welsh business development/growth.

[8] OBR Coronavirus reference scenario, Office for Budget Responsibility 2020
[9] The Future UK/EU Relationship, Welsh Government, 2020

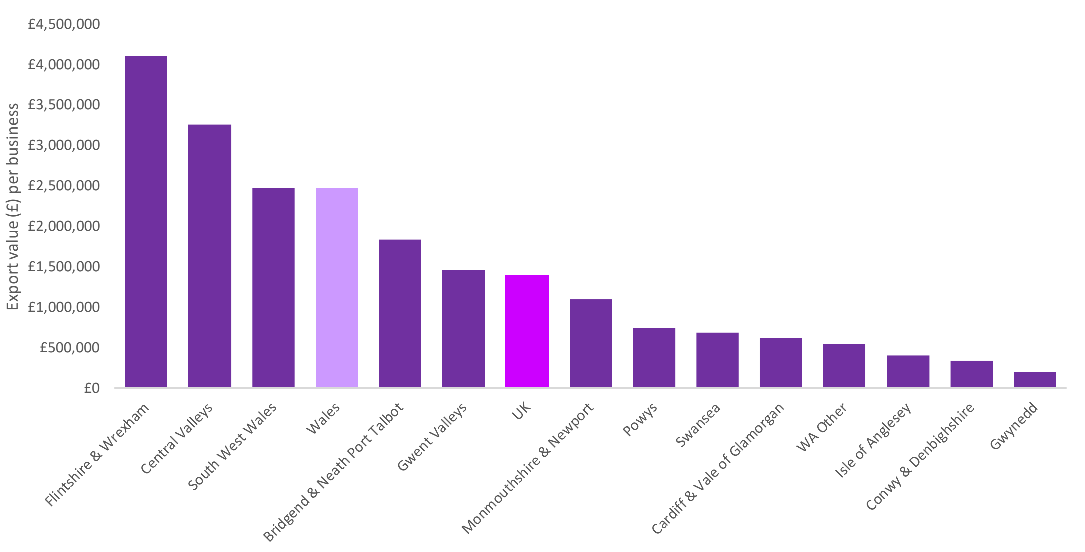
Figure 5 Export value (EU & Non-EU) per business (£), UK regions, 2019



Source: HMRC Regional Trade Statistics & Grant Thornton Analysis

Looking at the goods export propensity for business by Welsh NUTS 3[10] regions (Figure 6) shows a greater export intensity among businesses in less urban areas. This is unsurprising given the propensity for manufacturing companies to be based in less urban areas and for service sector companies to cluster in cities, leading to a higher potential service export base. Supporting this view, the 2019 Business Register and Employment Survey (BRES) (the latest available data), reveals that around 1 in every 4 employee jobs in Cardiff & Vale of Glamorgan were in the Education & Health sectors. The sectoral structure in Flintshire & Wrexham is more weighted towards the Manufacturing sector – a more export dependent sector – with 1 in every 4 employee jobs being in this sector.

Figure 6 Export value (EU & Non-EU) per business (£), Wales NUTS 3 Regions, Wales & UK, 2019



Source: HMRC Sub-Regional Trade Statistics & Grant Thornton Analysis

[10] NUTS 3 stands for the Nomenclature of Territorial Units for Statistics level 3. It is a geographical level that is formed from groupings of local authorities in Wales.

These findings highlight the relative importance of exporting to the Welsh economy. Given the importance of trade to Wales, the changing relationship between the UK and EU prompts questions around the impact on exports of different trading arrangements. It is in response to this context that we have developed a Gravity Model of Wales' exports to assess what impact a 'deal' or 'no deal' EU-UK trade relationship will have on Welsh exports.

4 Welsh importing context

As noted in the introduction, the focus of this report is on exports rather than imports. However, it is important to note that like exports, the level of imports are an important factor to the level of business development and consumer choice. Based upon statistics from the HMRC, imports into Wales amounted to £2.7bn in Q2 2020 – accounting for around 3.3% of all UK imports (£81.6bn). Similarly to the situation with exports, the level of imports has been impacted by the COVID-19 pandemic. Total imports in Q2 2020 were almost 40% lower compared to Q2 2019.

Typically, Wales imports around £4.5bn worth of goods per quarter and around £18.1bn annually. The majority of goods imported into Wales originate from Non-EU countries, which accounted for around 61% of all imports in 2019. In comparison, Non-EU imports for the rest of the UK only accounted for around 45% of goods imported in 2019. Of the goods imported into Wales, the largest proportion of these centre around the importing of Machinery & Transport equipment, with this sector accounting for 37% of all imports undertaken in 2019. Wales also shows a high level of import in Mineral Fuels with this accounting for around 23% of all imports in 2019.

The difference in terms of the dependence of the EU to Wales in terms of exports and imports is stark. While the EU accounts for 61% of exports, it only accounts for 38% of imports. This highlights the potential difference in exposure of a 'no deal' EU transition for exports and imports. While we can be certain about the EU transition having a negative impact on imports it can also be said that the impact will be lower than would be seen in terms of exports. As noted in the introduction limitations in the robustness of import data meant that it was not possible to model these impacts in the same way that we have done for exports.

5 Leaving the EU

It has been widely recognised that leaving the EU will have impacts on tariff and non-tariff barriers to trade. Throughout four decades, access to the Single Market has resulted in frictionless trade between the UK and the EU. Welsh Government have previously noted that "In most cases, the costs and bureaucratic burdens which face a Welsh business selling a product in Germany or Malta are little different from selling it in Scotland"[11].

By exiting the Single Market, even with a Free Trade Agreement (FTA) that would aim to reduce or eliminate charges for trading across the border, there will be significant change to trade relationships. Therefore, Welsh Government have made it clear that any future FTA with the EU must prioritise access to EU markets, minimise barriers to trade, and aim to maintain the frictionless access to trade[12].

Despite the aspiration for frictionless trade agreements, much of the policy and strategy around future trade relations remains unclear. For example, while it was a member of the EU, the UK was part of around 40 trade deals with over 70 countries. At present, only 22 of these existing deals are being rolled over to start on 1st January 2021[13]. Further trade deals are still yet to be negotiated with previous trading partners and therefore their potential impact is yet unknown.

Despite the possibility of an FTA with the EU, the benefits this would bring might be unlikely to offset the losses from non-tariff barriers to trade[14]. These barriers may include the requirement of additional

[11] Trade Policy: the issues for Wales, Welsh government, 2018
[12] The Future UK/EU Relationship, Welsh Government, 2020
[13] https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries
[14] Economic analysis of UK government's proposals for EU exit, Securing Wales' Future, 2018

checks and paperwork at the border leading to delays and implications for agri-food, aerospace, and automotive sectors who rely on quick turnaround access[15].

In January 2020 Welsh Government set out what it perceived to be the key points for negotiating tariff and non-tariff barriers to trade in Wales[16]:

- Agreeing to a broad level playing field with the EU to ensure open and fair competition including alignment on environmental, social, and labour market standards.
- Dynamic alignment with EU rules and regulations necessary to ensure no new trade barriers come into force.
- Participation in EU bodies and agencies such as the European Chemicals Agency to support dynamic alignment.
- Ensuring that the choices regarding governance of our future relationship, and the UK's future immigration framework reflect the prioritisation of EU markets.

It is clear that close alignment to EU bodies and regulations would mitigate some barriers to trade, however the current expectations for trade deals and policy remain unclear and therefore difficult to navigate. Additional policy surrounding Freeports and the Northern Ireland Protocol complicate the picture further.

The **Northern Ireland Protocol** aims to ensure that there is no border or border formality between Northern Ireland (NI) and the Republic of Ireland (RoI). Under the current Withdrawal Agreement there would therefore need to be customs checks on goods crossing the border between Great Britain and Ireland[17].

The main implications on the Northern Ireland Protocol are expected to be:

- Producers in Great Britain (GB) (including Welsh producers) are likely to lose market share in Northern Ireland (NI) as goods sent from GB to NI will face new customs checks, possibly customs duties, and other regulatory/administrative checks, while NI trade with the EU (notably with the RoI) will remain frictionless.
- The more extensive the trade barriers between the UK and the EU (notably RoI), coupled with less extensive border checks between GB and NI, will result in a greater incentive to divert trade from RoI-GB to NI-GB routes. This will likely impact on the level of freight going through Wales to Ireland.
- New infrastructure and technology solutions will need to be implemented in Welsh ports to handle any new checks required.
- Any delays to border checks could have significant implications for sectors that rely on quick transport and access. For example, perishable food items may be subject to longer or more extensive checks regardless of whether the UK diverges from EU food standards.

Alongside this, the UK Government is also looking to introduce up to 10 **freeports** across the UK which would have "different customs rules to the rest of the country, that are innovative hubs, boost global trade, attract inward investment, and increase productivity."[18]. The proposal is that freeports would provide a secure customs zone where business can be carried out inside a country's land border but reduce tariff controls and provide relief from duties and import taxes[19]. However, analysis of the potential for duty savings from Freeports suggests that they are unlikely to generate any significant benefit to businesses[20]. As such, it is a proposal that has been subject to extensive consultation by Government[21] with decisions still pending around its implementation. The true impact of freeports is therefore currently unknown but it is likely that freeports would have implications for both port infrastructure, customs checks and trade flows into and across the UK.

[15] Welsh Government's analysis of the UK Government's negotiating mandate for the Future Relationship with the EU, Welsh Government, 2020

[16] The Future UK/EU Relationship, Negotiating Priorities for Wales, Welsh Government, 2020

[17] The protocol on Ireland/Northern Ireland: the implications for Wales' external trade, 2020

[18] Freeports consultation, UK Government, 2020

[19] Freeports and Wales, Welsh Affairs, 2020

[20] Tariff inversion in UK Freeports offers little opportunity for duty savings, UK Trade Policy Observatory, 2020

[21] See https://www.gov.uk/government/consultations/freeports-consultation

6 Wider socio-economic considerations

Wales' extensive trade links with Europe also have implications for a wide range of socio-economic factors, both for residents and businesses.

Academic literature shows that importing and exporting goods helps to boost productivity by increasing competition when exporting to a global marketplace[22]. This boost in productivity in turn can lead to higher paying employment and improved living standards across the Welsh economy. Similarly, importing creates competition within the Welsh market, providing variety of choice for consumers and limiting prices[23].

Wales has also benefited from multiple foreign inward investment projects over the years. Evidence suggests that membership to the EU may have increased foreign direct investment in the UK by around 30%[24]. The loss of this investment from multi-nationals may have impacts on productivity and pay as these tend to be higher in multi-national businesses with positive effect 'spilling over' to more local Welsh businesses[25].

Additionally, Wales receives money from both Common Agricultural Policy payments, and European Structural funds totalling approximately £680 million each year. Since 2001 these funds have worked to halve the inactivity gap between England and Wales and improve employment rates. The funding has targeted infrastructure, research and innovation, and skills. Without this funding, Welsh Government makes it clear that Wales could be left behind as a region of the UK[26].

Finally, the loss of free movement with the EU may have significant ramifications for the Welsh workforce in sectors that are reliant on expertise from the continent such as manufacturing or aerospace.

The result is that trade and in particular increased trade costs will affect a broad range of economic outcomes[27] both directly and indirectly. While the wider affects have not been the focus of this work they are an important consideration for local authorities in working through the implications as it will invariably be the local authority that is called upon to provide the first line of response.

[22] Learning-by-Exporting Firm-Level Evidence for UK Manufacturing and Services Sectors, 2007
[23] Trade policy: the issues for Wales, Welsh Government, 2018
[24] Foreign Direct Investment and the Relationship Between the United Kingdom and the European Union, 2016
[25] Trade policy: the issues for Wales, Welsh Government, 2018
[26] Regional Investment in Wales After Brexit, Welsh Government, 2020
[27] IFS (2020) Potential consequences of post Brexit trade barriers for earnings inequality in the UK

4 Modelling results

1 Introduction

This chapter presents the findings of the econometric modelling results. The Gravity Model results (i.e. the percentage impact on Wales exports) have been applied to annualised HMRC Regional Trade Statistics by sector and NUTS 3 region to generate an 'as is' situation and the two scenario/counterfactual positions ('deal' and 'no deal'). Through this approach, an assessment of the impact upon Wales at a macro level, sectoral level – using SITC codes – as well as at a regional level (NUTS 3 level) can then be derived.

In considering these results it is important to note that this analysis has focused on physical exports of tradeable goods, in doing this, the analysis does not include services sectors. The exporting of services in terms of both people and data is obviously an important part of the Wales economy and will be particularly significant for some local economies. While not modelled, these sectors will not be immune from new terms and conditions of trade that result from leaving the EU.

Analysis completed for the UK Parliament[28] outlined that as a result of the EU transition service exports like good exports will be impacted regardless of a deal being struck. However, the impacts will occur through different channels. Unlike good exports, which are subject to tariff barriers and border checks, service exports will instead be subject to national regulations, such as professional qualifications, licensing, etc. Under the current arrangement, EU countries remove these regulations and align restrictions, allowing for the free movement of data/people, thus boosting service exports. However, under either a 'Deal' or 'No-Deal' the UK regulations on services will differ from that of EU, leading to impacts upon service exports. Under a 'Deal' there is the potential for the UK and EU to align, to some extent, their regulations. Although, this will still be likely to result in a significantly lower level of movement compared to under EU membership. Under a 'No-Deal' scenario the UK will become a 'third-party' country in terms of service exports, meaning that trade will follow the General Agreement on Trade in Services (GATS) as outlined by the World Trade Organisation (WTO). The GATS sets a baseline for the liberalisation of service sectors for trade, whereby members commit to allow trade to continue in service in certain sectors. Under this scenario, the level of trade is expected to be significantly lower than currently undertaken. As a result, under either scenario the level of service exports will be lower than they would have otherwise been, which will in turn impact the wider economy.

2 National Export Impacts

Table 1 shows the overall expected impact on Welsh exports across two scenarios ('No-Deal' and 'Deal'). Under, a 'No Deal' scenario, Grant Thornton has assumed the UK as a whole will have no Free Trade Agreement in place on the 1st January 2021. This will result in the UK operating under WTO terms with the European Union. Additionally, as part of this scenario it is assumed the FTA's the EU had with Non-EU countries will not 'roll-over' to the UK. Under this scenario it is assumed that both the EU and the UK will operate under WTO terms of trade in terms of individual 'commitments' on tariffs, etc. The UK under this scenario will then apply its UK Global Tariff schedule, which becomes effective from the 1st of January 2021 to all imports from EU countries. Similarly, the EU will apply the EU Common External Tariff Schedule to all imports made from the UK.

Under the 'Deal' scenario it is assumed that the UK will agree a FTA with the EU and so will operate under FTA terms from the 1st January 2021. Under this arrangement, it is assumed that all tariff rates between the UK and the EU will be removed. Similarly, it is assumed that the majority of EU FTA's with other Non-EU countries will 'roll-over' to the UK, including those with Australia, New Zealand, Canada,

[28] 'Trade in services and Brexit' (2019)

etc. given the pre-existing relationship between these countries and the UK. However, it is assumed that while there are no effective tariff rates in place; non-tariff barriers will be introduced, impacting trade.

The term 'non-tariff barrier' is used to cover all types of measures countries implement on top of traditional tariffs which ensure imports meet the required standards for health & safety, etc. Under these non-tariff barriers its assumed this will place additional administrative burdens upon exporters through additional paperwork or through border checks at ports, etc.

Table 1 **Export impact (% & level £m), Wales, Annualised**

		Impact on Welsh goods exports by location of trading partner		
		EU 27	**EU originated FTA**	**Estimated total impact cost (Annualised Impact)**
Brexit outcome	**No-Deal** UK trades with EU on WTO terms and there is limited roll over of EU FTAs	-15%	-26%	£3.5bn
	Deal UK agrees trade deal with EU that removes all tariff barriers to trade. UK rolls over majority of EU FTAs.	-6%		£1.1bn

Source: HMRC Regional Trade Statistics, OECD, COMTRADE & Grant Thornton Analysis

Note: *Figures have been rounded to nearest £100m*

The Grant Thornton 'Gravity Model' estimates the impact on exports will vary across both scenarios, with the impact under a 'No Deal' scenario reducing Welsh exports to the EU by 15% and to non-EU countries by 26% (Table **1**). This difference is due to the relative ease of negotiating as a collective – as part of the EU – in terms of both bargaining power as well as the overall size of the market, in comparison to negotiating as an individual country.

To illustrate the monetary impact on Welsh exports, Grant Thornton used annualised data from the HMRC to form the counterfactual. In 2019, around £17.8bn worth of goods were exported from wales, with around £10.8bn of this going to other EU countries and the balance (£7bn) to Non-EU countries. Applying the above expected impacts under a 'No-Deal' scenario to the annualised data, it's estimated that the value of goods trade in Wales would decline by £3.5bn. Exports to the EU would reduce by £1.6bn and Non-EU exports by £1.8bn. The differential in the impact between the EU and Non-EU is due to Wales not only losing access to the EU market, but also to any markets the EU currently has free-trade arrangements. Additionally, it is estimated that when the UK start negotiations with Non-EU Countries, without the negotiating weight being in the EU provided in terms of market size, it could prove difficult reducing the UK's and Welsh overall exports.

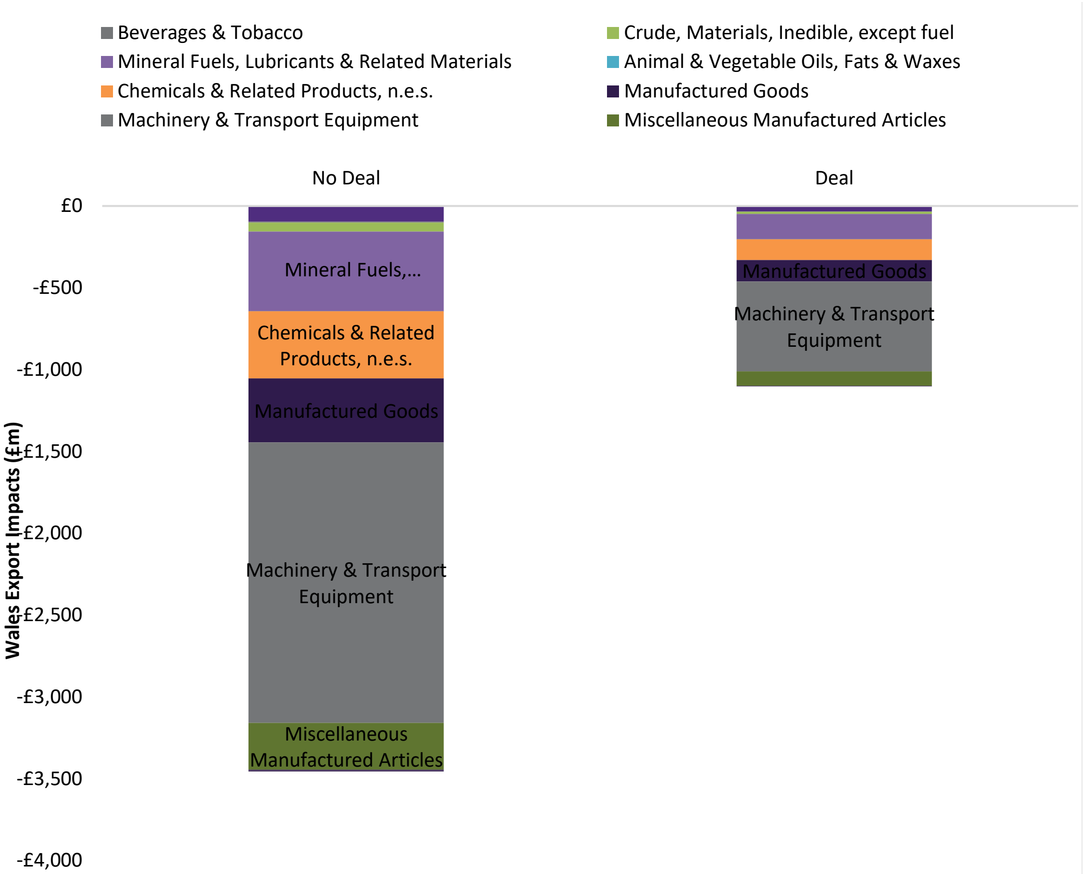
Under a 'Deal' scenario, its estimated to reduce Welsh exports by 6%. Applying this to the annualised HMRC data gives a monetary affect of an £1.1bn export reduction.

Under both scenarios, while the impact varies between 6% and 19%, total Welsh exports are estimated to fall regardless resulting in a wider economic impact in terms of economic growth and jobs. Using Welsh turnover per job data from the Annual Business Inquiry we applied this to our goods export impacts. Our estimates for job impacts suggest that under a 'No Deal' scenario Wales could lose around 27,700 jobs, while under a 'Deal' Scenario a total of 8,800 jobs are at risk – or between 2.9% and 9.4% of total employees.

3 Sectoral Impacts

It is not unsurprising that the sectors that export most will feel the greatest impact. Figure 7 shows the expected export impact by SITC across both scenarios. The predominant impact (69%) will be focussed in the Manufacturing sectors. Specifically, the Machinery & Transport sector is expected to bare the brunt of this impact – accounting for around half of the total impact (50%).

Figure 7 Export impact value ('No-deal' & 'Deal') by SITC codes, Wales, Annualised



Source: HMRC Regional Trade Statistics & Grant Thornton Analysis

Note: *Beverages & Tobacco and Commodities & Transaction not elsewhere specified (n.e.s). have been removed from the above chart as both impacts less than £2m*

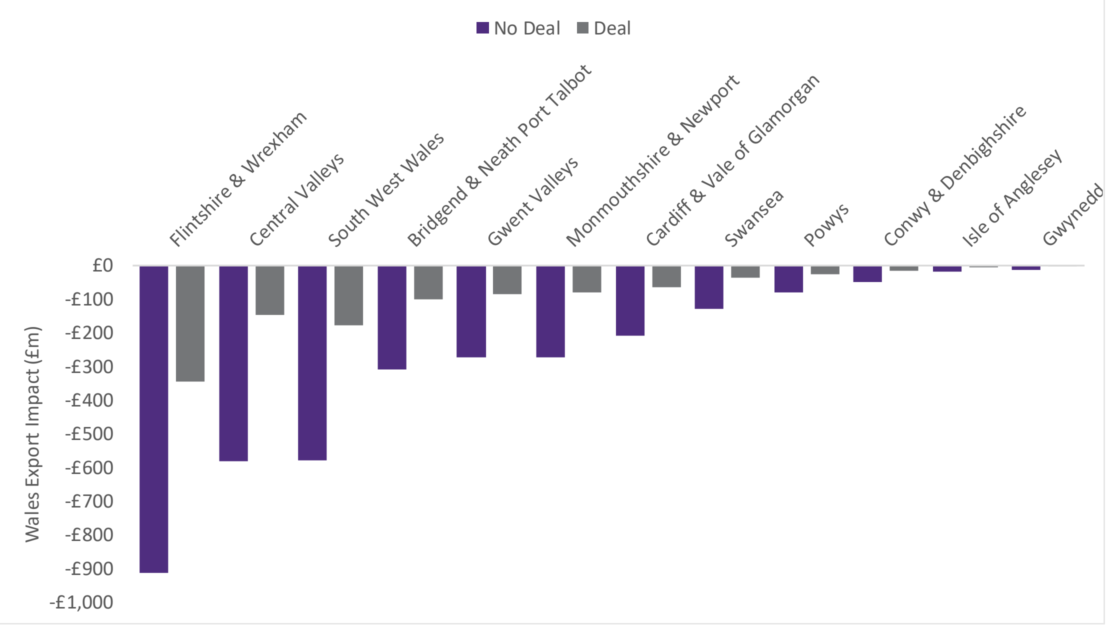
4 Regional Impacts

Regionally, available goods export data supports an assessment at NUTS 3 regions.

Figure 8 shows the most affected goods exporting region to be Flintshire & Wrexham. Service based (typically city) economies are less affected i.e. Cardiff & Vale of Glamorgan. These service city-based economies may be more susceptible to impacts to services and the flows of people and data, and thus more likely to see service exports impacted rather than goods.

The divergence in impact is both reflective of the exporting intensity difference between the areas, as highlighted in Figure 6, as well as the differences in their sectoral structures. As noted earlier Flintshire & Wrexham is highly Manufacturing focused, with around 1 in 4 employees employed in this sector compared. In comparison, only 1 in 20 employees in Cardiff & Vale of Glamorgan are employed in this sector.

Figure 8 Goods export impact value ('No-deal' & 'Deal'), Wales, NUTS 3 Regions, Annualised

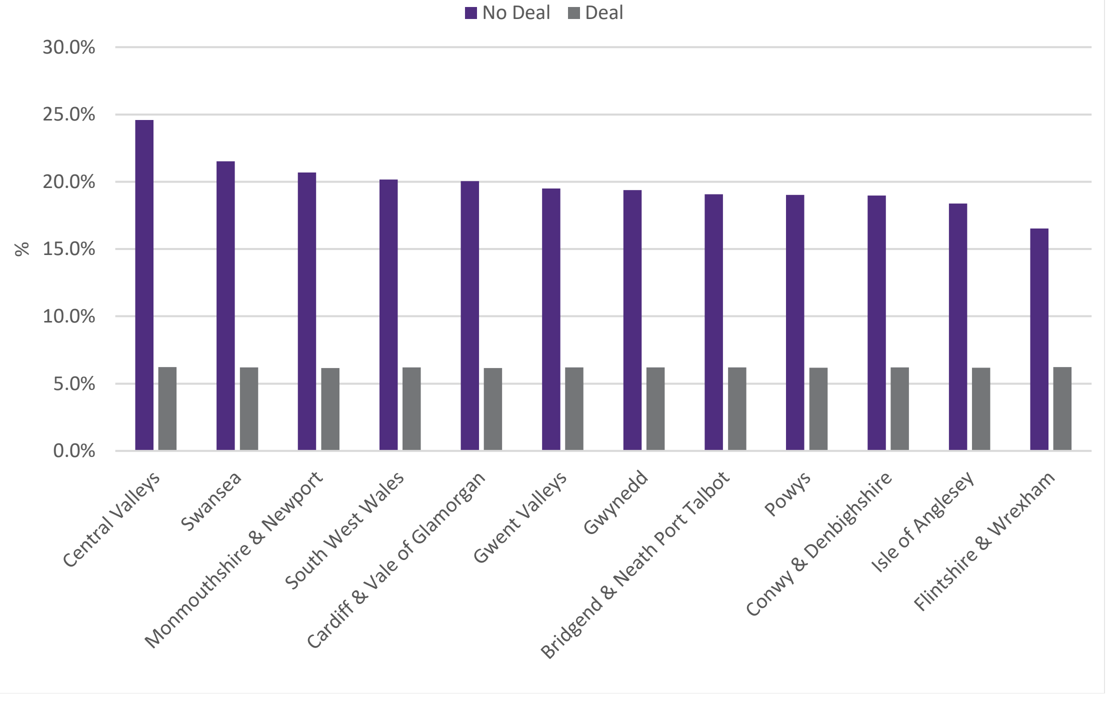


Source: HMRC Sub-Regional Trade Statistics & Grant Thornton Analysis

Note: *The above doesn't include the impact on WA BTTA, WA Energy & WA Other exports*

It should be noted that whilst Flintshire and Wrexham is predicted to experience the largest export impact in value terms in a 'no deal' scenario, when this is expressed as a proportion of total exports it is comparatively lower than the other areas, at 16.5% (see Figure 9). However, these impacts will still have significant impacts on their local economies. By contrast, in the Central Valleys the export loss represents 24.6% of total exports. In the case of a 'deal' the export impacts as a proportion of total exports is relatively similar across all areas, averaging 6.2%.

Figure 9 Export impact value as a proportion of total exports ('No deal' & 'Deal'), Wales, NUTS3 regions, Annualised

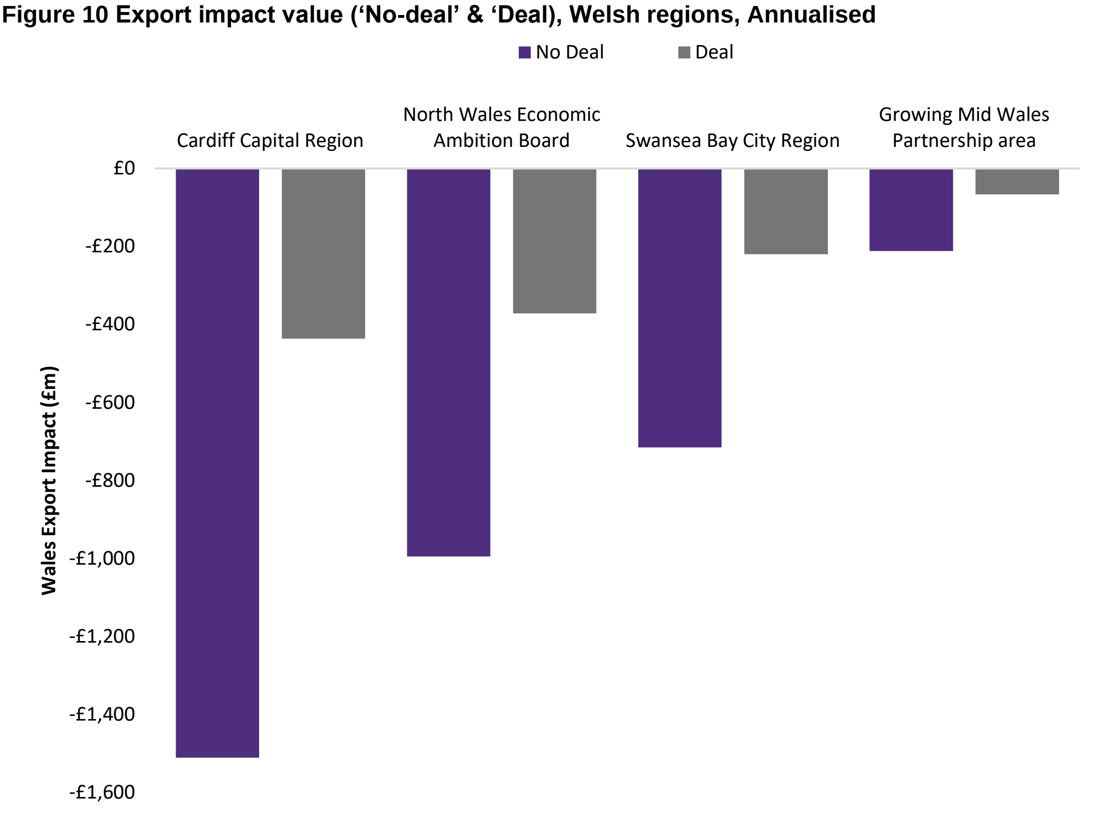


Source: HMRC Sub-Regional Trade Statistics & Grant Thornton Analysis

Using the NUTS3 level data we have also been able to aggregate the export impact value to the four economic regions of Wales[29]. In order to present the data in this way we had to implement a weighting methodology using business data. This approach has limitations as it does not take into account the propensity to export of individual businesses and therefore the results should be treated with caution.

Figure 10 shows that out of the four Welsh economic regions Capital Cardiff Region is estimated to be the most affected – in part due to its scale – with a predicted reduction in export value of £1.5bn in a 'no deal' scenario, whilst the Growing Mid-Wales Partnership area the least affected, with a reduction of £0.21bn.

Figure 10 Export impact value ('No-deal' & 'Deal), Welsh regions, Annualised



Source: HMRC Regional Trade Statistics, UK Business Counts (2020) and Grant Thornton Analysis

Note: *Regional figures are based on a weighting methodology using business data, however not all businesses will engage in exporting activity.*

5 Supply Chain Impacts

The analysis undertaken establishes that exports will reduce, regardless of the type of agreement in place i.e. 'Deal' or 'No Deal'. By design, the gravity model assesses these 'first round' effects of reduced trade flows. Wider, 'second round' effects such as how reduced exports impact on supply chains are beyond the scope of the model but are important to consider. The exporting businesses that will see reduced turnover from trade will create a ripple effect through supply chains and, depending on the extent to which supply chains are local, have a multiplicative negative impact on the Wales economy.

Further, if supply chains are imported, there could be added costs associated with bringing these supplies into Wales. The impact on supply chains is a highly complex issue, which might also lead to

[29] The four regions of Wales are: North Wales Economic Ambition Board area (Anglesey, Gwynedd, Conwy, Denbighshire, Flintshire, Wrexham), Growing Mid Wales Partnership area (Powys and Ceredigion), Swansea Bay City Region (Pembrokeshire, Carmarthenshire, Swansea and Neath Port Talbot), Cardiff Capital Region (Bridgend, RCT, Vale of Glamorgan, Cardiff, Caerphilly, Merthyr Tydfil, Blaenau Gwent, Torfaen, Monmouthshire, Newport)

shifts to a more localised supply chain, rather than one which relies on imports. Unpacking these various supply chain issues, and how they impact on the Wales economy is worthy of ongoing monitoring and assessment.

5 Consultation findings

1 Introduction

Alongside the quantitative findings from the econometric modelling this chapter presents the qualitative findings from the range of stakeholder consultations undertaken as part of the project. For ease of interpretation these findings have been synthesised to identify key themes. For each of these themes we have sought to summarise the key points and highlight any points of divergence between different stakeholders.

The key themes identified through our consultations were:

- The role of Welsh ports in their local economies varies significantly across Wales and is often determined by the nature of the port and its main type of operation. Whilst some stakeholders viewed their port as serving as a major employment node the in the local economy, others were aware that their port has a much smaller influence on the local economy.
- A number of stakeholders were of the opinion that their local economies are heavily dependent on ‘at risk’ sectors which makes them particularly vulnerable to the impacts of the EU transition. Additionally, stakeholders underlined that many of these sectors have also been heavily impacted by COVID-19, adding another layer of vulnerability.
- Preparation levels varied by sector and business type. On the whole, most participants felt that businesses were ‘as prepared as they could be’ but some felt that there was still not enough clarity on costs and formalities to enable effective preparation to take place. Given the recent impacts of COVID-19, there was a consensus amongst all participants that businesses have understandably been more focused on managing these risks as opposed to getting ready for the EU transition.
- When asked to discuss the risks and opportunities of the EU transition there was a much greater emphasis on the imminent threats and minimal example of opportunities. Key risks raised during these consultations included increases in tariffs, disruption at ports, re-routing of hauliers, levels of IT readiness and increased administration.
- At the time of consultation (August-September) there were mixed views from the stakeholders on Border Control Points (BCPs). Whilst some were quite optimistic that the new requirements would cause minimal disruption, others felt that timescale for integration was short, increasing the risk of disruption and need for hauliers to re-route.
- Similarly, there were mixed feelings across the range of stakeholders on Freeports. A number of stakeholders recognised the positives they could bring in terms of innovation, inward investment and decarbonisation but would be more effective if they could sit alongside other wider policy. Concerns were raised by a smaller number of stakeholders around economic displacement, land requirements and logistics.
- In terms of support, a recurring theme throughout the consultations related to the importance of communication and clarity. Whilst signposting to guidance was seen by stakeholder as having been beneficial, some felt that the information has sometimes been difficult to digest and could be taken a step further through the creation of a contact centre where people can ask questions and receive more tailored advice.

2 The role of ports in local economies varies significantly across Wales

Through our discussions with local authorities and port authorities it became apparent that many of the ports serve distinct and differing functions and therefore have varied roles in the surrounding economies. Port of Mostyn, for example, is an important port for the offshore renewable energy sector, with seven offshore wind farms but deals with very little cargo. Port Talbot on the other hand is home to

Tata's primary steel manufacturing operation and handles over 6.6 million tonnes of cargo every year and over £760 million of trade. Milford Haven is known as the UK's largest energy port and is also one of the busiest ports in Wales in terms of freight movement. By comparison, Port Barry is less busy but plays a key role in the regional chemical industry through the transportation of liquid bulk for companies like Dow Silicones. Holyhead primarily serves as a ferry port, providing vital links between Wales and Dublin. Therefore, the type of economic activity occurring at and around ports can vary quite significantly.

In the case of Flintshire, Pembrokeshire and Anglesey, the ports serve as significant employment nodes not just for the local authority but also in supporting wider regional economic growth. For example, investment in the Port of Milford Haven has helped support around 4,000 jobs in recent years and the master plan for the redevelopment of dock areas at Milford Haven (Pembroke Dock) will provide a significant boost to the town through the conversion of historical buildings into new office space, a new supersize slipway and external laydown areas. These developments will help to ensure marine energy developers and other industries, can maximise operational efficiency and benefit from the enhanced land to sea interface. For Flintshire, the sustainable energy generation associated with the Port of Mostyn is also becoming a more significant part of the local economy. In Anglesey, the port of Holyhead directly supports 210 jobs, and indirectly another 100 jobs. Additionally, there are the seafarers which equates to an additional 230 jobs at Holyhead.

However, for some local authority areas such as Newport and Swansea the port isn't seen as currently proving a significant node of employment. However, there is recognition of the potential that the port offers and that with the right type of inward investment there is scope for the creation of new jobs.

It should also be noted that some ports have large regeneration schemes underway which in the medium-long term could also impact the local economy. For example, waterfront redevelopment at Port Barry could deliver up to 2,000 new high-quality homes alongside leisure and retail offerings.

3 Some economies are particularly reliant on 'at risk' sectors, increasing exposure to EU transition impacts

Aside from ports, local economies that are more reliant on manufacturing, aerospace, agriculture and tourism are perceived to be most at risk to the impacts of the EU transition. This is particularly the case for manufacturing which could see a 69% reduction in export value according to our model (see previous section). In Flintshire, some 30% of businesses relate to the manufacturing sector and many of these are particularly dependent on external trade rather than internal trade. Any disruption to trade could therefore have significant ramifications on the economy. The challenges that agriculture will face are largely to do with export tariffs, loss of farm support and the common agricultural policy.

Participants also raised that some of these sectors are now even more at risk due to COVID-19. This was felt by stakeholders to be particularly the case for the automotive and aerospace industry were consultees identified a drastic decline in demand, placing even large profile businesses at increased risk. This impact was also felt to have had knock on impacts on other sectors that comprise the supply chain, such as steel industry which provides components for vehicle bodies.

Consultees also highlighted that in other sectors, a greater concern is the impact of the EU transition on the labour market availability. This is particularly the case in economies where there is a high reliance on EU nationals, such as agriculture, tourism and education, which were identified by stakeholders as already experiencing recruitment difficulties.

4 Preparation, or lack of, for the EU transition

Through the conversations it became apparent that there is often a general lack of awareness on the implications of the EU transition and what the formalities will entail. The perception was that while businesses know that they have to 'get ready', they have limited clarity on what they are actually preparing for and are still relatively unaware of the additional costs and delays that could result.

However, this is countered by some where the view was that given the uncertainties that exist, they felt 'as ready as they could be'.

Levels of preparation also appeared to vary by sector and size of businesses. It was generally felt that the larger 'tier 1' businesses were already well prepared but that smaller businesses have tended to fall behind on preparedness levels. Some of the interviewees felt that larger businesses were better prepared because of the direct relationships they have with government departments who will be guiding them through and ensuring that they are transition proof; or because they have the capacity to employ in house specialists on trade related matters such as VAT specialists which will enable them to work through some of the challenges ahead. For example, many organisations are struggling to understand exactly how changes to VAT and customs will impact them.

Whereas, smaller businesses will be more dependent on more widely available resources such as the government website. Whilst useful, some stakeholder felt that this information can be difficult to interpret and not as tailored as it could be (something that is explored in more detail later). The result is that there is a reliance on the larger companies to feed information down through the supply chain. Maintaining the accuracy and timely flow of this information can therefore be challenging and any blockages further upstream can have significant implications to the rest of supply chain who may miss out on vital information.

A secondary issue is that over the past few years people have witnessed and come through a series of 'false storms' on the EU transition. Two deadlines have already been and gone with many seeing little change to day to day life and business operations. The result is that there is a perception that the 31St December 2020 deadline will be similar. The sector bodies consulted were clear that this is a false perception and that from the 1st January 2021, things will be very different.

A recurring theme throughout our discussions was that over the past 6 months COVID-19 has understandably been a major focus area for businesses of all sizes. This has meant that EU transition preparedness has been temporarily side-lined, while efforts are focused on managing COVID-19 risks and ensuring that businesses can continue to operate. In some cases, EU transition preparedness teams have had to be disbanded and it has only been in the past couple of months that the EU transition has to start coming back on to the agenda.

5 Mixed feelings about the risks/opportunities of the EU transition

Risks

When asked questions around risk many stakeholders found it difficult to say what the precise impacts might be, given the view that there are still so many unknowns surrounding the EU transition.

In relation to traffic flows at ports there were mixed views on the risks depending on the nature of port and trade routes. One resounding message was that ensuring frictionless trade that protects established and intertwined supply chains is paramount. In Holyhead, there are some fears around trade readiness and that if hauliers and importers are not ready then congestion at the port could be a potential risk. The added concern at Holyhead is that Northern Ireland originating loads, which accounts for a third of traffic coming from Dublin to Holyhead, may decide to ship on direct NI to GB routes in order to avoid customs process in ROI. Equally important to both Holyhead and Fishguard is the risk that the high proportion of Republic of Ireland originating loads that use the GB 'Landbridge' to access the Continent may decide not to transit via GB due to perceived congestion around the short sea and 'Operation Brock'. If these goods were to go direct to France from Ireland (Rosslare to Cherbourg) that could reduce the volume coming through Holyhead and Fishguard which also carries risk. There are also NI originating consignments that come through the Pembrokeshire ports, where typically half-loads are picked up in NI and then more part loads in Ireland. This would also make for greater complications in enforcing customs requirements.

There are also risks in relation to government and third party IT systems and customer readiness, not just in relation to routes with the UK but also Ireland. Given that we are now in November the timetable for integration is very short leaving little time to train staff fully or test the integration. As yet, there is also no 'plan b' if systems were to go down and the system as it stands is not developed to react to unplanned service disruption which means that manual intervention needs to be considered.

Through our consultations with sector bodies it also became clear that risks tended to vary according to sector and the type of operations.

For **crude material refineries** there were mixed feelings. For example, there are concerns in relation to one large oil refinery, where the risk of uneven tariff arrangements could jeopardise trade relations and create an unfair advantage for importers. But from a gas perspective, there was a perception of minimal impact with large operators not voicing concerns.

In terms of **food and drink** it is clear that this sector is already under a lot of pressure and the challenge from the EU transition will be around the scale of disruption. There was acknowledgment that even if there is a 'deal' there will still be increased costs and bottlenecks to deal with. The level of disruption will vary case by case and will be dependent on the current trading situation of individual businesses. The general view was that businesses that do not import/export and are more self-sufficient on local markets will be relatively unaffected. But for the SMEs that are more dependent on trade, process such as rules of origin will require increased levels of paperwork, labelling and other criteria which the industry is not yet fully geared up to deal with. One of the requirements for packaged food and beverage will be too have an EU office address on the packaging which could result in a significant amount of work in order to find an appropriate address, especially for UK based SME's without a physical office base in Europe.

An additional burden for food and drink businesses, irrespective of any deal, is that imports from the EU will be subject to custom declaration costs per delivered consignment. One stakeholder noted that these costs could range from between £90 to £200 per consignment depending on the type of commodity, how many commodities and whether the consignment required a Common Veterinary Entry Document (CVED) for products of animal origin. Linked to this, there is also real concern that the UK will not have enough qualified practitioners to check and sign the paperwork at the point of destination which could cause further disruption.

The added risk for the food and drinks sector is that some of the goods will be perishable and therefore if lorries arriving at ports aren't carrying the correct paperwork, goods could end up sitting at the port for a prolonged period with the risk of spoiling and wastage.

The other wider risk associated with food and drink is that in the case of a no deal scenario the average price of food could increase significantly as a result of tariffs. The British Retail Consortium warns that in the case of a no deal scenario, tariffs would add £3.1bn a year to the cost of importing food and drink. The impact of tariffs will vary across a range of products but could be as high as a 48% levy on beef mince[30]. The inevitable increase in prices on these goods could have devastating implications for the most deprived low-income communities who are already struggling a result of COVID-19.

A secondary risk related to the increase in tariffs is the knock-on impacts this will have on supply chains. Some businesses will need to inform their entire supply chain of the potential tariffs that may apply, if any, but this can only take place once the trade talks have concluded. This leaves a very short timeframe to disseminate the information through the supply chain and advise any customers of additional costs due to tariffs.

There are also questions about the future of the fishing sector. Whilst many early EU transition conversations focused on the benefits of 'taking back control' over fishing waters, people remain unclear as to what that will actually mean in practice. Some are sceptical as to whether Wales is prepared to take advantage of this – for example it would require much larger fishing trawlers. Also, owing to the unique fishing market in Wales, which is heavily dependent on shellfish exports, it is seen as being more vulnerable to the loss of market or any non-tariff barriers and therefore maintaining unfettered access to the Single Market remains a greater priority.

From a **manufacturing** perspective the risks are seen as being two-fold – the first consideration is the flow of goods and the border and the second is the trade formalities and what this means for business operations. The primary difference between a deal or no deal will be the issue of tariffs. However, it is the business operation issues which are likely to impact more acutely regardless of whether there is a deal or not. A number of sector bodies highlighted that whatever the nature of the deal, the principles of trade will change and there will be immediate and substantive changes around the physical dispatch and export of goods. Changes that will bring a raft of additional business operation requirements which

[30] Fair deal for consumers – Why tariffs are bad news for UK consumers, British Retail Consortium, July 2020

many companies may not have the in-house expertise to deliver themselves, such as VAT exposure, auditing requirements and business ownership in the EU.

The further complicating factor, is that there are four distinct types of trade routes to consider (GB to EU, EU to GB, GB to NI and NI to GB) which would mean that entry requirements could be different at different ends of the route, requiring four different border formalities. In the case of deal some of these formalities could be addressed to reduce complexities but people need to be prepared that these mitigations may not be in place.

The **aerospace** sector has already been hard-hit by COVID-19 and there are fears that the EU transition will result in even more turmoil for the industry. Part of its vulnerability lies in the fact that is a very global sector which is sustained through the constant movement of parts and pieces across European borders. With the introduction of tariffs and trade barriers it becomes logistically challenging and expensive to sustain this constant movement. Any rise in expenses will ultimately make a business less competitive, which is a particular risk for aviation businesses in Wales who are in direct competition with other sites across the globe. As a consequence, there could be increased risks of companies looking to offset risks by moving some of their operations to other locations in Europe. This would then have knock on impacts to local workforces. If the UK becomes less attractive this could also lead to a reduction in inward investment which is crucial for the sector and have knock on impacts on the skill sets. The sector could also see dual related impacts from both the EU transition and COVID-19. For example, if a large second wave of COVID-19 was to coincide with increased border disruption form the EU transition it could see the prioritisation of transportation in life saving PPE, medicines and technology over engine related parts and machinery.

The **automotive** industry has taken several ‘hits’ in recent years with high profile companies cutting jobs, in some cases plants closing down all together. Whilst some of this has been blamed on falling sales in China, the view was that many think that these changes are down to EU transition uncertainty which is adversely affecting car sales and reducing investment in the industry. The risks have now been exacerbated by COVID-19, which has seen demand for cars virtually ‘bottom out’. This has shorter and longer term implications. In the short term it has demanded a focus on mitigating COVID-19 risks as best as possible. Over the longer term a reduction in demand forces global manufacturers to make difficult decisions around the viability of plants and facilities, the fact that these decisions are being made at a time when manufacturing in and export from the UK is about to become more complex and expensive could have notable implications for the sector.

For other sectors, the risks posed by the EU transition are thought to be more indirect. For example, over the past 25 years there hasn’t been tariffs on **steel** which is partly why there is so much global trade. Therefore, the implications of the EU transition on tariffs won’t make a huge impact straight away. However, in 2018 the US introduced a 25% tariff on steel imports from the EU, which may carry over to the UK once the EU transition period is over. There is therefore still uncertainty about how the UK will be treated within that regime. A second risk for the steel sector is the knock on impacts from other affected sectors such as automotive sector, which often require steel components. For example, Tata supply flat role products which used in the production of cars and therefore is any significant impacts on the automotive sector could have significant repercussions.

Opportunities

The majority of stakeholders were of the view that any potential opportunities for benefits remain unclear but there was recognition that it is important to start thinking about opportunities alongside the risk.

Where opportunities were identified, it was accepted that these benefits would take a while to ‘come through the system’. For example, benefits could arise from having independent trade policy – new systems could be introduced which improves trade such as the digitalisation of transactions.

Another suggested opportunity was the creation of new jobs through state agencies being based at ports or through local firms who step in to fill the gaps when certain trade items or services become more expensive.

For some sectors the EU transition could also provide the impetus to develop new relationships with other countries. However, some noted that whilst new global markets could bring long-term benefits, these are not going to flow through quickly or replace what is being lost with the EU. New trade deals can be complex and resource-intensive and therefore negotiations could be time consuming and expensive.

For the food sector there could be an opportunity to increase the processing capacity specifically in Wales. With a small number of stakeholders mentioning that there might be opportunities around fishing but it was acknowledge that given the challenges of working in this sector it will take significant investment in labour, skills and infrastructure.

A further opportunity for the food sector is switching to UK based brands in order to meet demand for goods that were originally imported. This will help to establish and strengthen more local supply chains and could provide opportunities for local businesses. The view from some consultees was that in order for this to be successful there would need to be more food production and processing capability within Wales.

There was also recognition that any opportunities they might have been will have been mitigated or hampered to some extent by COVID-19. For example up until recently there had been some exploratory discussions around freight going in and out of airports but there has been limited exploration of this as an opportunity as a result of COVID-19 impacts.

6 Mixed views on border control points

In October the Government ramped up preparations for the end of the transition period by publishing an updated Border Operating Model which provides details for businesses and passengers on how the GB-EU border will operate from 1st January 2021. Included within this report is a map of intended potential inland sites which highlights two potential site locations in Wales, one in Holyhead and a further one in South Wales – albeit the specific location is not clear.

It should be noted, however, that the majority of our consultations took place in August and September and therefore many of the views expressed here were prior to this publication. At the time of discussion some stakeholders were unclear as to where Border Control Points (BCP) would be located and how many ports they may serve. Alongside this, there were questions raised as to whether it was even necessary to have custom agents based in the ports where the good enters as this could be done remotely instead. For example, at Holyhead custom checks take place away from the port and requires little involvement from the port. However, at Fishguard the custom checks take place at the port which is leading to ongoing discussions with HMRC about what that will look like post the EU transition and who has control.

The majority of people consulted found it difficult to quantify or pinpoint concerns in relation to border control points. Many felt that the issues were limited as custom clearances are already being handled on a daily basis. Others have already had conversations about security and customs and therefore feel that they can accommodate new requirements relatively easily and have processes in place to manage. There was a general feeling therefore among these stakeholders that the ports are actually quite resilient and will be able to adapt as they always have done without too much disruption.

However, the latest publication of the Border Operating Model has triggered some new concerns, particularly in relation to the BCP in South West Wales. Whilst the document indicates that checks will be phased gradually with full checks not required until 1 July 2021, some see this timescale as being very optimistic. There are concerns that if BCP's aren't in place by this date it could prevent the importation of certain categories of consignments to the Pembrokeshire ports which presents a significant risk. Linked to this, hauliers tend to be risk adverse and therefore if they decide that a port no longer works for them they could reroute to other locations. There were also concerns around the lack of available land to locate border control points.

A number of stakeholders, when asked about border control points also made the point that a more pressing issue was the Department for Environment, Food and Rural Affairs (DEFRA) requirements which were felt to be onerous and difficult to manage on site.

7 A general lack of clarity and understanding on Freeports

As discussed in Chapter 3 of this report, the UK Government is looking to introduce up to10 freeports across the UK which would have "different customs rules to the rest of the country, that are innovative hubs, boost global trade, attract inward investment, and increase productivity."[31]. The proposal is that freeports would provide a secure customs zone where business can be carried out inside a country's land border but reduce tariff controls and provide relief from duties and import taxes[32]. The proposal has been subject to extensive consultation by Government[33], with a bidding process launched in November 2020[34]. The true impact of freeports is therefore currently unknown but it is likely that freeports would have implications for both port infrastructure, customs checks and trade flows into and across the UK.

When we asked stakeholders what their view of Freeports was, we had a broad mix of responses. Many found it difficult to give strong viewpoints as they either were not very familiar with them or felt that the concept of Freeports wasn't clearly defined. For example, some felt that freeports raised logistical questions and would like further clarity on how they would work in practice. One or two people felt that the use of 'Free' in the title was potentially misleading as from a tariff perspective the differential in tariffs would not necessarily be significant and therefore unlikely to generate notable savings to businesses.

One of the main concerns stakeholders held was that they could displace economic activity rather than generate new jobs and economic value. Linked to this, some also raised issues around the feasibility of moving large operations to new locations. A secondary concern was that freeports are more of a land-based policy, which raised 'red flags' for those areas that already have limited land availability.

More positively, some liked the idea of the 'status' that a freeport could bring but in other cases the attraction was driven by the fear that it could be seen as a risk not to have one, particularly if other nearby ports do.

A smaller number of stakeholders recognised the potential benefits that freeports could bring in terms of innovation, inward investment and decarbonisation. In particular it was identified that they could enable regeneration to be more targeted, as opposed to the more 'scatter gun' approach that currently occurs. It was however noted that the realisation of these benefits would require effective planning and correct structuring.

It is important to note, that those that did recognise the potential benefits did also stress that as a standalone policy freeports 'could miss the mark' and that it was important that they 'sat alongside' other policy measures to boost productivity. For example, tying in with wider energy policy, particularly given the advancements that are taking place in wave, tidal and lagoon power in Wales. Others felt that they also need to consider the wider strategic context – how they could strengthen local relationships and align with existing regional economic strategies. It was felt therefore that there needs to be a greater focus on freeports as economic enablers and not just the potential for lower tariffs.

For those that are getting more actively involved there have been some emerging concerns over the time and money required to make a bid, particularly given that there will only be up to 10 Freeports in total which means that the competition levels across the UK is very high.

8 A need for further support

A number of the stakeholders consulted expressed a view that previous support in the run up to earlier Brexit deadlines from the UK and Welsh Government had been sufficient and effective but there was a perception that the support ahead of this deadline was not as readily available or transparent.

A recurring theme throughout the consultations related to the importance of communication and clarity. The general perception was that while signposting to information is a helpful starting point, in order to be effective the support needs to be taken 'one step further', for example through the opening up of a contact centre where people are able to ask specific questions. Creating an accessible environment to

[31] Freeports consultation, UK Government, 2020

[32] Freeports and Wales, Welsh Affairs, 2020

[33] See https://www.gov.uk/government/consultations/freeports-consultation

[34] See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/935493/Freeports_Bidding_Prospectus_web_final.pdf

do this was felt to be critical by a number of the consultees. The view was that businesses want to feel that they are armed with information so that they can discuss the risks and implications of the EU transition more freely and openly.

There was a view amongst some stakeholders that when information is made available it can be ‘patchy and not easily digestible’, to the point where sometimes it can feel ‘overwhelming’. Checklists were cited as one such way as this helps break down the issues into more concise points that serve as a manageable starting point. Alongside this, there was perceived to be a great lack of coordination between UK Government and the devolved governments which raised concerns amongst a number of stakeholders.

Linked to this there was a particular need for information that helps to simplify and streamline the tariff and border processes as this would help to save time and effort. One respondent suggested that having sectoral tariff agreements could be an effective way of simplifying the process.

Another view that came out through our discussions was that support should also focus on longer term structural changes that support sectors to become more efficient and resilient to the EU transition. These measures could vary by sector but could include supporting facilities/plants to become greener and more digitally enabled – factors which while not helping with the immediate challenge would ensure that support is focused on longer term resilience and sustainability. Another area of investment identified was in the establishment of food production and processing capabilities within Wales, something that was felt to offset tariffs in an indirect way while also creating local employment opportunities.

A number of interviewees also suggested that the Welsh Government have a role to play in acting on behalf of the ports when they have concerns or issues that need raising. This may also include asking for money to invest in ports and providing more clarity on state aid rules. Greater investment would help to encourage port-centric manufacturing and encourage good quality employment in highly paid jobs.

Finally, financial support that helps to prevent the liquidity risks to businesses and supports working capital was also seen to be important – particularly in the context of COVID-19 and the challenging period businesses are currently operating in. Alongside this, policies that reduce energy prices and business rates were also identified as areas that would help to reduce costs and enhance profitability and competitiveness.

6 Implications and actions

1 Introduction

With the proximity of the 31st December 2020 it is critical that this report prompts action. This can not be 'research for research's sake'. The quantitative and qualitative analysis presented in the proceeding chapters has underlined both the scale of the challenge and the need to take action. This final chapter seeks to support this process by summarising the key implications from the work before setting out some of the key actions for both local authorities and businesses.

2 What do we know from out work?

Both a Deal and No Deal will significantly impact Welsh exports

The econometric analysis showed that a 'No-Deal' scenario could reduce total exports by 19% - a loss of £3.5bn in export revenues. While a 'Deal' scenario would see a reduction of 6% - a loss of £1.1bn in export revenues. These impacts would be most profoundly felt in the Manufacturing sector and as a result of this the spatial impacts would be more pronounced in those regions with strong manufacturing basis such as Flintshire and Wrexham.

Similarities between Deal and No Deal

Regardless of whether a deal is reached the UK is set to leave the Single Market and the Customs Union. A Free Trade Agreement would still represent a significant change in the UK-EU trading relationship. This means that for most businesses, the steps they need to take to prepare for the EU transition are the same in a 'Deal' scenario as they are in 'No-Deal'.

Should a deal be agreed the major benefit for organisations will be the removal of tariff-barriers between UK-EU trade and the potential continuation of non-tariff trade easements.

General lack of preparation

2020 has been a difficult year. The combination of responding to a global pandemic and general EU transition fatigue has meant that many organisations have not done as much preparation as they would have liked.

The guidance has also changed. In 2020, new details have been published on both sides of the channel. No Deal technical notices, Tariff Schedules, Immigration regimes and Boarder operating plans have all been updated and amended this year. Many businesses were unaware of the changes, and therefore unaware that planning on these assumptions was now inaccurate.

Confusion over Customs and VAT

Many organisations are struggling to understand exactly how changes to VAT and Customs will impact them. A deal is thought by many to negate the need for changes – this is not the case. When do tariffs apply? Who pays them? What commodity code should I use? Are all frequent customs questions.

Import VAT is another area of confusion with many businesses not fully aware of their requirements in EU member states.

Planning focussed on BAU

Organisations are looking to do the bare minimum ahead of 2021 and then respond in more detail when the final outcome is known. This means they are focusing on taking the necessary steps to enable them to continue trading 'business as usual' (BAU) in 2021 – regardless of the EU transition outcome. They are postponing decisions around larger restructures (including establishing European operations) until they have greater certainty.

This may mean that full implications of the EU transition are not felt by places for some time – as a 'slow drip' of activity out of the UK occurs as operations are restructured.

3 Priority actions for Local Authorities

In setting out these actions for local authorities it is acknowledged at the outset that the implementation of some of them may be more appropriate for the Welsh Government or other bodies like Business Wales. We have included them here in part of completeness, but also because we see an important role for local authorities in advocating for and then supporting the delivery of these actions.

It is also acknowledged that COVID-19 has placed unprecedented pressures on local authority officers, services and budget and therefore that some of these actions will be more challenging as a result.

Awareness and support

There is a need for further interventions to help organisations understand what changes they need to make and support them with implementation. This could include:

- **Webinars**
  These need to be specific to key areas of change. Broad content and 'light touch' commentary are of little use to organisations at this late stage. Detailed run throughs of process changes and new requirements should be the focus. The more interaction that can be added the better – the opportunity to ask questions and get specific answers is invaluable.
- **Utilise business adviser network**
  Business advisers understand local economies and are well placed to get 'face-to-face' with a wide range of businesses and support them directly. Where possible, equip them to have EU transition conversations.
- **Funding support**
  Many of the step's businesses will need to take incur a cost – where possible mechanisms to alleviate the financial burden should be supported. Ahead of previous EU transition deadlines Central Government funded activities to help with preparation, these have been scaled back. Within State Aid rules and regulations, any funding support that can help would be welcome by businesses, particularly given the current working capital pressures they are facing as a result of COVID-19.
- **Partnership working**
  Where possible Local Authorities should look to work together and to pool resources. With COVID-19 pressures absorbing a significant amount of officer time, pooled activities (eg shared webinars) will provide important time savings. For example, could particular local authorities take responsibility – working with the relevant sector body – for providing advice to specific sectors? Could information on tariff and border processes prepared by one authority be shared with others? As part of this the Welsh Government has an important role to play in providing clear and simple advice that the local authorities can use to get out across their networks.
- **Border operating model and tariffs**
  Local Authorities should familiarise themselves with the Border Operating Model, new tariff schedule and work through the implications for their authority from a place and supplier perspective.
- **Analyse the exposure of local business**
  Local Authorities should identify their potential level of exposure based on the data contained in this report thinking about both geographic as well as sector implications. It will be particularly important to consider how Covid-19 will have exacerbated some of these risks. These risks could relate to businesses, people and place. These risks will inevitably be interrelated, for example business risk will translate to people risk if impacts result in job losses; or business risk with increased costs in food and drink manufacture (by way of illustration) translate into increased costs for consumers and impact on levels of food poverty in some of the most deprived communities. Working through some of these scenarios and linkages will be important in helping to provide economic and social resilience.

Responding rather than preparing

Given the short time remaining for organisations to prepare for the EU transition, it is important to consider how best to support them to react. The vehicles to support as outlined above may continue to be the right ones but the messaging and focus may change. It may also be a good time to think about whether that support is brought together into a single resource.

Given the scale of the quantitative impacts highlighted in this report there is an important role for individual local authorities, the associated economic partnerships they are part of and even the Welsh Government to think through the scale of impacts identified and what this means for specific places:

- *Which businesses are most likely to be impacted?*
- *How can limited resources be prioritised to maximise value?*
- *What policy options are available to help mitigate potential job and economic losses?*

Consider the options for longer term economic intervention

Given the scale of the potential economic impacts resulting from reductions in trade, coupled with the effects of COVID-19 – which has simultaneously resulted in significant economic impacts alongside stimulating dramatic consumer and behaviour trends (such as homeworking and digital adoption) – the potential for market failure is profound. There is a role for local authorities in identifying these market failures and designing packages of support and economic interventions that can both address the market failure while also laying robust foundations for longer term economic recovery and growth. Two areas that were repeatedly flagged through the stakeholder consultations related to providing support to businesses to enable them to become more environmentally sustainable and to enhance digital practices, processes and services.

The specific opportunity for intervention and the nature of support required will vary between different places. Therefore, there is a role for local authorities to robustly analyse their place and examine the strengths, weaknesses and opportunities and in doing so identify those areas where investments can be made that will support longer-term economic and social growth:

- *How do my economic plans and strategies need to adapt in light of COVID-19 and the potential trade risks highlighted in this report?*
- *What are the mega-trends that are going to shape the economy over the next 10-15 years, how can I start to support businesses in my area to adapt to these?*
- *Where can I work with other places within the sub-region or across Wales to maximise the economic impact of any planned intervention?*

In considering options for longer term economic intervention better understanding the potential of freeports and the different economic scenarios that may result will be important. This will be true for both those authorities that are hoping to be 'home' to a freeport and to those where the freeport may be located in a neighbouring authority (in either England or Wales). As part of this there is a clear role for the Welsh Government in helping support local authorities in both briefing them about freeports as well as working through the different scenarios. In light of the recent launch of a bidding process around Freeports there is an urgent action for authorities to consider whether to bid on their own or in partnership with others.

In thinking through the different options and strategies it will be important for both local authorities and the Welsh Government to reflect on the recent recommendations from the Welsh Government commissioned report from the OECD on multi-level- governance[35]. This OECD report is far broader in scope that the issues discussed here however a number of the recommendations do play into thinking about longer term economic development objectives, for example the call to: "introduce regional-level development plans"; "ensure coordination between the regional development policy and sector policies with regional logic and goals"; or "adopt the proposed Framework for Regional Investment and use it to support investment initiatives across sectors and among levels of government". The trade impacts presented in this report could therefore provide important sub-regional evidence to inform the discussion and debate on these issues.

[35] OECD (2020) The Future of Regional Development and Public Investment in Wales

4 Areas for businesses to focus on

In the run-up to 2021, Local Authorities should encourage businesses to focus on the four key areas below. The main area businesses are likely to need support is with compliance. There are a number of new rules and processes that will be introduced in a short time frame. Businesses lack clarity on exactly what these are and how they will be applied. Any guidance or support in understanding the changes would be beneficial – for example: detailed guidance on how changes to the border operating processes will impact on current operations.

Compliance

Is all your paperwork up to date?

The regulatory landscape will change. Ensure that business's products and services comply with the new rules and processes. Including:

- Customs checks and documentation
- New VAT processes for exports throughout supply chain
- Product standards conformity testing for exports into the EU
- Data and GDPR safeguards
- Food and beverage labelling for UK exports into the EU

Continuity

Can you continue to operate and serve customers?

Make sure organisations mitigate the chances of any disruptions post-transition and any wider economic uncertainty.

This may be through:

- Retaining the current workforce – where possible avoid losing staff (e.g. to competitors) at this key time. Consider how you can make yourself an attractive employer e.g. through offering non-cash benefits
- Re-evaluating, post pandemic, financial break even points and knowing what needs to be done to keep afloat
- Reviewing stock levels
- Engaging with suppliers and customers
- Reviewing any vulnerability throughout supply chain and customers, especially in light of the Covid-19 pandemic.

Cost

Can you reduce costs and free up cash?

With the economy disrupted significantly businesses need to think now about the ongoing impact this will have, and actions they can take in response.

Other areas to consider include:

- Decrease discretionary spends
- Tighten debt management – chase outstanding bills and try to pay off any unsettled debts
- What have you learnt from managing cash flow throughout the pandemic? Can this be taken forward into 2021?

Communication

Have you spoken to everyone you need to?

Communication is vital. This may be through engaging with accountants, investors or your bank, supply chains, employees, or customers.

This will help mitigate disruption and build business strength in a period of political and economic volatility.

Use the current Covid-19 disruption, and the prospect of different challenges as we approach 2021, as an opportunity to reach out, identify any possible problems and build solutions ahead of time.

7 Appendix A – literature reviewed to develop the Gravity Model

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OBR (2018); Brexit and the OBR's Forecasts; Discussion Paper No. 3; https://obr.uk/docs/dlm_uploads/BrexitDiscussionWebVersion.pdf

Shujiro & Misa (2007); The Impacts of Free Trade Agreements on Trade Flows: An Application of the Gravity Model Approach; RIETI Discussion Paper Series 07-E-052, The Research Institute of Economy, Trade and Industry; https://www.rieti.go.jp/jp/publications/dp/07e052.pdf

Appendix B – organisations consulted

Local authorities
Vale of Glamorgan
Isle of Anglesey
Cardiff
Newport
Flintshire
Pembrokeshire
Swansea
Port authorities
Port of Mostyn
Milford Haven Port Authority
Stenaline
ABP ports
Sector bodies
MAKE UK
UK Steel
Aerospace Institute of Technology
Welsh Automotive Forum
Food and Beverage Federation
Businesses
Pendyrn Distillery
GE Aviation
Castell Howell

It should be noted that in some instances multiple people were interviewed in some organisations either in the same interview or in separate consultations with different teams or departments.

Appendix C – Topic Guides

Local authorities

- Please provide an overview of your role at the local authority.
- What is the role that trade and in particular the port plays in the local economy?
- What do you see as the key risks relating to Brexit for the port and for your local economy – are the two linked?
- Do you see any opportunities relating to Brexit for the port and for your local economy – are the two linked?
- What are your views on 'Freeports'? What are the risks and opportunities?
- In terms of our analysis and the recommendations that follow would you like these to be Wales wide, specific to each port or a mix of the two? Please explain why?
- Would it be ok to follow up if other points arise throughout our work?

Port authorities

- Please provide an overview of your role at the Port.
- What is the nature of the Port? E.g. freight movement, leisure, fishing or renewable energy?
- What is the main type of good that the Port primarily deals with?
- What is the flow of goods from the Port, if any?
- What role foes the Port play in the local economy?
- Do you have any views on how Brexit will impact the Port activities? Do you see any opportunities arising?
- In terms of additional border checks and controls that may arise from Brexit do you have any particular concerns?
- In what ways could the local authorities/Welsh Government provide support to mitigate the risks
- How do you see the Norther Ireland Protocol impacting Welsh ports?
- What's your view on Freeports? Is your Port intending to bid to be a Freeport? If so, what are the benefits you see?

Sector bodies/businesses

- Please provide an overview of your role within your organisation.
- What risks to your sector does Brexit pose?
- In this context how significant are trade risks?
- What are the specific issues around trade that make it risky/less risky?
- To what extent is Wales more or less exposed to this risk than the UK?
- Do you think there could be any opportunities for your sector associated with Brexit?
- How has Covid-19 impacted trade within your sector?
- What support would help your sector in responding to these trade risks? (From UK government, Welsh Government, Local Authorities)
- How prepared are businesses in your sector for responding to these risks?
- Does preparedness vary by size, sub-sector, exposure to trade impacts etc?
- What would help them to better prepare?
- What is the current thinking around the Northern Ireland protocol in your sector?

- What is the current thinking around Freeports in your sector?

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