



Evidence briefing paper

Brexit and Wales

This evidence briefing paper summarises some of the key challenges and opportunities presented by the UK's departure from the European Union (EU); and reflects upon how these can be addressed by the Welsh Government, local authorities, employers, and other stakeholders. The paper focuses specifically on our research on the implications of Brexit for the economy, migration, and agriculture and fisheries.

Key messages

- 1 The evidence suggests that the UK's exit from the EU significantly worsens the prospects for the Welsh economy.** It will reduce Wales's economic output, exacerbate existing inequalities, and hamper public spending due to lower tax receipts and the loss of EU structural funding.
- 2 Sectors particularly reliant on trade with the EU** cite key concerns as being a lack of preparedness, non-tariff barriers, challenges related to rules of origin, and declining investment.
- 3 Guiding and financially supporting businesses in dealing with the short-term challenges,** while investing in reskilling, together with prioritising R&D and technology investment in the long term, are the main recommended policy responses.
- 4 A reduction in the numbers of European Economic Area migrants** could lead to a reduction in the overall size of the working-age population in Wales.
- 5 A reduction in migration will affect key sectors of the Welsh labour market,** including manufacturing, higher education, tourism and hospitality, culture and the arts, and health and social care.
- 6 The new Health and Care Worker Visa will mitigate the impacts on the Welsh NHS,** which will be able to hire non-UK nationals for most roles. However, it is insufficient for social care, where fewer roles will qualify. This could exacerbate existing workforce challenges for this sector, including difficulties recruiting and retaining social care staff.
- 7 Changes in trading conditions will leave Welsh agriculture in a disadvantaged position** compared to its main competitors. Sheep and beef farmers will be particularly hit.
- 8 The quota gains for Welsh fisheries are likely to be very small.** However, the increased focus on fisheries policy provides opportunities to rethink how the system can best be designed and managed for the benefit of the economy and communities.
- 9 The Brexit process has highlighted the limits to Wales's ability to influence UK government policy.** This may have implications for the future trajectory of devolution.

Context

In the 2016 referendum Wales voted to leave the EU, with 52.5% in favour of Brexit. Surveys conducted before the referendum suggested that Wales had the highest level of support among the nations of the UK for leaving the EU, and a long-held view that immigration should be reduced, despite having one of the lowest proportion of immigrants. So this result should not have come as a surprise.

However, the referendum campaign and subsequent debates about the 'divorce agreement' and trade deal showed that there was only limited understanding of the key issues. This has highlighted the need for policymakers to reflect on how policy is interpreted and understood by the public. Interestingly though, in the years since the referendum attitudes to immigration appear to have softened. Welsh polling data suggested that ending free movement, while maintaining free trade, were priorities in voters' decisions; and that a general cynicism about EU regulations did not apply to popular individual measures, such as EU mobile phone roaming regulations, and airline compensation.

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The devolution process in Wales has been gradual and incremental, and there have been tensions between the Welsh and UK governments. Brexit has shown the limits to the Welsh Government's ability to influence UK government policies, and has created further instability in the Welsh political system. Disagreements around the UK Internal Market Bill – which aims to preserve trade across the UK nations but has the potential to undermine the Senedd's policy responsibilities – is one high-profile example of the contested nature of inter-governmental relations. Signs that the UK Government favours recentralising the powers gained as a result of leaving the EU, rather than devolving those powers to Wales, Scotland, Northern Ireland and English regions, have added to the tensions.

The economic implications of Brexit



The Welsh economy is highly integrated into the UK economy. The effects of leaving the EU are thus likely to be equally felt across Wales, England and Scotland, with consequences for incomes and wealth, as well as all aspects of economic and social policy.

Even before changes associated with Brexit started to take effect, inflation led to increased consumer prices in essential items. With the trade deal now concluded, there are likely to be direct consequences for incomes and consumer prices, and subsequent lower tax revenues will hit incomes further.

The effects of Brexit will impact the whole of the Welsh economy. While the new trading relations will hit some sectors harder than others, Brexit is not a sector-specific shock. It may therefore be helpful to consider the factors that will have most impact on all businesses and households.

Public policies can encourage diversification, innovation, and reskilling

The resilience of the economy depends on structural as well as firm-level factors.

Post-Brexit and post-pandemic there will be an opportunity to lay some new structural foundations, to ensure that Wales has a more diverse and inter-connected industrial base; a skilled workforce; is more export oriented; and has high levels of innovation. At the firm level dynamic companies which compete on quality rather than cost, have strong community ties, and can adapt and innovate, are more likely to survive and grow. Public policies can encourage diversification, innovation, and reskilling; and are even more important in the context of the dual and concurrent economic shocks of the Coronavirus pandemic and Brexit.

This ability to adapt will also be critical for households. Individuals and groups who are already disadvantaged in the labour market are less able to adapt to economic shocks: they have lower levels of savings, higher levels of debt, and less capacity to move or retrain. There is a pressing need to support those who are economically disadvantaged, both through welfare provision and skills and training.

Where there are sectoral impacts as a result of Brexit, there are some common themes. **Preparedness is a key issue**, with many sectors feeling less prepared for this transition than they were for previous Brexit deadlines. This is due to a combination of the impact of the Coronavirus pandemic, and a sense of 'Brexit fatigue' brought on by the experience of preparing for previous deadlines. While tariffs will be an issue for some businesses, non-tariff barriers (such as delays at the border and customs certification) are expected to have a greater impact. These will be more problematic for businesses whose fresh produce may spoil.

Rules of origin allow products to be exported without tariffs if they are mainly produced in the UK. Complying with the rules will be a challenge in sectors such as car manufacturing, where products are made up of multiple components coming from different countries. This could have a big impact on profit margins and firms' ability to export, although many have not yet assessed the cost implications. Declining investment is a concern for most sectors, and particularly for those with large numbers of smaller businesses which have benefited from EU funding in the past – notably agriculture and tourism.

A further hit will take place in those parts of Wales affected by the loss of EU structural funding. Between 2014 and 2020, Wales qualified for almost £2 billion of assistance from EU structural funds, with the majority going to West Wales and the Valleys. These funds were used for a range of investments intended to make regions more competitive, including improving skills, supporting businesses, and improving transport and connectivity. They supported some high-profile schemes, such as the South Wales Metro. Brexit could have a significant impact, both on planned projects, and long-term assistance for deprived communities.

Among the challenges, there are some potential opportunities that may arise. Despite the difficulties that have been exposed since the end of the transition period, **agriculture and fisheries could benefit from new trade deals**. There may also be opportunities to use state aid powers to help grow Welsh businesses and to bring innovative products to the market by permitting investment at all levels of the product development cycle.

Our research recommends that the Welsh Government guides businesses through the new regulations; encourages retraining and job creation in the customs sector to meet increased demand; maintains emergency funding for sectors affected by border delays; and continually monitors the impacts on Welsh ports.

Migration



The UK Government plans to end the free movement of people to the UK from EU countries. The proposed Immigration Bill will have significant implications for Wales's economy, society and population.

There are approximately 80,000 European Economic Area (EEA) nationals in Wales, all of whom have been granted permanent residence. However, a reduction in future migration from the EEA will affect the Welsh labour market. Wales has been more reliant on non-UK migration to grow its working-age population than many other parts of England.

Brexit will have most impact on sectors which currently employ substantial numbers of EEA migrants who are paid less than £25,600 per annum – the salary threshold which the UK Government has specified for those wishing to come to the UK for work. These sectors include manufacturing, higher education, tourism and hospitality, culture and the arts, health and social care.

The impacts on the Welsh NHS will be mitigated by a new **Health and Care Worker Visa**, which means that for certain occupations, the salary threshold will be set at the appropriate NHS pay scale, and will enable the NHS to hire non-UK nationals.

The implications for social care are likely to be more severe. Fewer roles will qualify for the Health and Care Worker Visa, or Skilled Worker Visa, and this could exacerbate existing challenges in recruiting and retaining staff

Compared to the current free movement system, it will be easier (and cheaper) for non-EU nationals to work in the Welsh NHS, but considerably harder and more expensive for EU nationals. As most roles within the Welsh NHS will qualify for either a Health and Care Worker Visa, and Skilled Worker Visa, the overall impacts are likely to be small.

The implications for social care are likely to be more severe. Fewer roles will qualify for the Health and Care Worker Visa, or Skilled Worker Visa, and this could exacerbate existing challenges in recruiting and retaining staff. Given both the importance of social care provision for the NHS and the desire for an integrated health and social care system in Wales, the sector will be more vulnerable as a result of leaving the EU.

As well as varying by sector, the UK Government's **post-Brexit migration policy will have different impacts on full-time and part-time workers, by gender, and in different parts of Wales.** This is due to the salary threshold excluding jobs in lower-paid sectors that are more commonly held by part-time workers, by women, and in parts of Wales with lower-than-average wages.

A reduction in the numbers of EEA migrants could lead to a reduction in the overall size of the working-age population in Wales. This would mean that a smaller number of workers would be available to support the growing number of people of pensionable age, which could be a particular challenge in rural areas that already have ageing populations.

Our research recommends that the Welsh Government considers establishing an expert group, (similar to the Expert Advisory Group on Migration and Population in Scotland), to advise ministers on how to make the new migration policies work as effectively as possible for the economy and employers in Wales. It should also continue to make the case to the UK Government for policies which reflect the characteristics of the Welsh labour market. In addition, the Welsh Government and other stakeholders can consider ways of ensuring that Wales is seen as a destination that welcomes migrants. For example, by developing an integration strategy and initiatives to support rural communities with declining working-age populations.

Agriculture and fisheries



We have carried out a body of research on the implications of Brexit for agriculture and fisheries in Wales. These policy areas not only have economic implications but also make important contributions to maintaining the social fabric of many Welsh communities.

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Changes in trading conditions will leave Welsh agriculture in a disadvantaged position compared to its main trading competitors. Sheep and beef farmers will be particularly hard hit, and a decline in the economic viability of sheep production is likely. Dairy, horticultural, and mixed farm types may be better placed to benefit from Brexit. Given the longstanding debate in Westminster about farm payments, levels of UK public funding for agriculture are likely to decline. This would impact North and West Wales in particular.

How food and forestry producers and processors respond to Brexit will be crucial. Supporting farmers in new ways will be important, not only for the economic and social outturns, but also for land management and natural resources. Farmers are land managers who provide an environmental benefit. Therefore, any adverse consequences of Brexit in relation to the support they receive, could have environmental, as well as economic consequences.

In 2018, we analysed 'fishing opportunities' – the term used for fishing licences, quotas and other access privileges. We found that the Welsh share of the UK fishing quota is less than one percent. As such, **the gains to the Welsh fishing industry from Brexit may be very limited**, unless the allocation of fishing opportunities within the UK is reformed in parallel with new fisheries agreements reached between the UK and EU.

This does not take into account the current transition challenges for the fishing industry, which need to be resolved quickly.

We proposed policy options for maximising the opportunities afforded by Brexit in ways that align with the Well-being of Future Generations (Wales) Act 2015. Under current arrangements, many species caught in Wales (shellfish in particular) are not managed through EU quota limits on the quantity that can be caught, but through limits on effort (e.g. pot limits, scallop dredges). The Welsh Government could incentivise different fishing practices to change the catch, to better support local economies, to consider changes to market systems, and to support new entrants into the sector.

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You can read all of our work on Brexit [here](#).



About us

The Wales Centre for Public Policy helps to improve policymaking and public services by supporting Welsh Government ministers and public service leaders to access and apply rigorous independent evidence about what works. The Centre works with leading researchers and policy experts to synthesise and mobilise existing evidence and identify gaps where there is a need to generate new knowledge.

The Centre is independent of government but works closely with policymakers and practitioners at national and local level to develop fresh thinking about how to address some of the key economic, social and environmental challenges facing Wales.

The Centre's work covers a wide range of policies but is currently focused in particular on:

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- Tackling loneliness and social isolation
- Children looked after
- Economy and skills
- Health and adult social care
- Effective governance and implementation

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