

Exiting the European Union Committee

Oral evidence: UK's negotiating objectives for withdrawal from EU, HC 1072.

Thursday 2 March 2017, Swansea.

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Members present: Hilary Benn (Chair); Alistair Burt; Jonathan Edwards; Peter Grant; Stephen Timms.

Questions 1233-1273

Witnesses

[I:](#) Professor Roger Scully, Professor of Political Science, Wales Governance Centre, Cardiff University, Dr Jo Hunt, Reader in Law, Wales Governance Centre, Cardiff University and Dr Rachel Minto, Research Associate, Wales Governance Centre, Cardiff University.

[II:](#) Professor Brian Morgan, Professor of Entrepreneurship, Cardiff Metropolitan University, Professor Iwan Davies, Professor of Law and Senior Pro-Vice-Chancellor, Swansea University and Steve Thomas CBE, Chief Executive, Welsh Local Government Association.

Examination of witnesses

Professor Roger Scully, Dr Jo Hunt and Dr Rachel Minto.

Q1233 Chair: It is a great pleasure to be here at the National Waterfront Museum in Swansea for this meeting of the Brexit Select Committee. I would like to welcome our first panel of witnesses, Dr Jo Hunt, Reader in Law at the Wales Governance Centre at Cardiff University, Professor Roger Scully, Professor of Political Science, Wales Governance Centre at Cardiff University, and Dr Rachel Minto, Research Associate, Wales Governance Centre at Cardiff University. You are all very welcome. We have quite a lot of ground we would like to cover in the questions to you in this first session; if you could keep your answers as succinct as possible, it would help us to cover the ground, and all of us have questions that we would like to put to you.



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I would like to begin by asking you this. The Welsh Government have set out in their paper what they want out of Brexit—what their priorities are. How compatible do you think those are with what the UK Government set out in the White Paper that was published recently?

Professor Scully: If I could start off, in general terms, I think a lot of what the Welsh Government has set out for its specific negotiating priorities, such as single market access for Welsh manufacturing, agriculture, structural funds and so on, is entirely unsurprising. It would be bizarre if the Welsh Government had not prioritised those sorts of things in their joint paper with Plaid Cymru. Some of what they have said is looking increasingly difficult to reconcile with the direction of travel we appear to be getting from the UK Government, particularly in relation to the single market. Other things may well be resolvable.

One other general issue that is not so much policy-specific but is laid out in page 8 of the Welsh Government and Plaid Cymru's White Paper is the fundamental remodelling of the UK and substantial changing of the intergovernmental machinery. That is something that is very ambitious and, while it is personally quite attractive to me, it is quite problematic, primarily because I think the Welsh Government is the only Government in the UK that fundamentally believes in that. The Scottish Government and at least half of the Northern Irish Government, when it exists, do not really believe in staying in the United Kingdom. There is little evidence of a substantial demand from Westminster and Whitehall for this sort of fundamental restructuring of the whole basis of the UK that is talked about in the White Paper. I think that is going to be extremely difficult to achieve.

Q1234 **Chair:** We will pursue that later on in the questioning. Dr Hunt?

Dr Hunt: There is the commonality, I think, in some of the language used, in wanting as frictionless trade as possible, so no tariffs. In regulatory terms, there is a framework that continues the free movement that we currently have through EU membership with the rest of the European Union. Of course, the UK Government have said that they foresee that the UK will be out of the single market now—and the customs union, but continuing with some of the advantages of being within that. The Welsh Government position is that they would favour a continued participation in the single market and the customs union through EEA membership for the UK as a whole. There is a distinction there between how Wales is positioning itself and how Scotland is positioning itself. It is not making the same sort of claims as Scotland is in wanting to have its own continued membership of the single market.

The other point where there is perhaps less commonality is on free movement of people and the migration issue. We see in the Welsh White Paper the continued desire to see free movement and the continued importance of the free movement of people. A lot of what is being presented there is essentially what is in EU law already. It is not making a claim for any greater rights or any real restriction on what is there. It



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talks about free movement for economic purposes, free movement of workers and free movement for other purposes where you can support yourself. That essentially is what we have in EU law. The approach that the Welsh Government take is clearly different from that of the UK Government. They are not looking for restrictions, but they talk about a more calibrated approach to free movement.

Dr Minto: I agree with what Roger and Jo have said. In addition to seeking continued participation in the single market and the customs union, the Welsh Government have highlighted a number of European programmes that they would seek to continue to participate within, such as Creative Europe, Erasmus+ and Horizon 22. If we look at the UK Government's approach, we can see that they have highlighted the importance of science research with respect to a particular European programme; there is an overlap there.

Q1235 Chair: What is the economic impact of not getting any barrier-free trade to continue for Wales, briefly?

Professor Scully: None of us here are economists, but if you look in general terms at the Welsh economy, you have a relatively poor part of the UK that has high dependence on the public sector that is under pressure from austerity. Secondly, there is a relatively small number of important export-oriented manufacturers, some of which—for instance, GE Aviation based in Nantgarw—are probably less dependent on the European market and more on places like the Middle East and the Far East, but a number of others, Airbus and Ford for instance, would be very heavily dependent on single market access.

If you look at agriculture, which is responsible for a very large proportion of the Welsh land mass, the profile of Welsh agriculture is very different from that in much of England, for instance. It is much more concentrated on livestock agriculture, which is also very heavily export-oriented, and the vast majority of those exports currently go to the European single market. If there is substantial dislocation of access to the single market, it seems there would almost inevitably be negative consequences to the Welsh economy, an economy that is already not doing particularly well compared to the rest of the UK.

Dr Minto: Also it is important that we think about the trade routes that go through Wales. We have three particularly important ports in Wales: Fishguard, Holyhead and Pembroke Dock. There are implications of the deal—if there is a deal reached—for the nature of the border between Northern Ireland and the Republic of Ireland, between the UK and the European Union, and what that will mean and what impact it will have on the trade route. There are implications there for Welsh ports.

Q1236 Jonathan Edwards: I want to put on the record my huge admiration for the work you have done since the referendum result in the Government Centre in Cardiff University.



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How well are the processes working for ensuring that the Welsh Government's voice is included in the UK Government's negotiating position?

Dr Minto: It is worth remembering that we have the Joint Ministerial Committee and, as you know, since the end of last year we have the Joint Ministerial Committee (EU Negotiations). It is worth remembering that there were criticisms about the structure that existed for intergovernmental relations. This is pre-thinking about Brexit. It had been criticised as being a quite weak and ineffective structure for the devolved nations to try to seek to influence that UK line, so there were already criticisms about the structure that was in place. Now we have the Joint Ministerial Committee (EU Negotiations). In terms of the communication that has been taking place, these meetings have been happening and there seem to have been bilateral communications in between those meetings. However, there is some anxiety attached to the impact of that communication and whether the devolved nations are securing any influence as part of this process.

Q1237 **Jonathan Edwards:** The Minister, Mr Drakeford, will be giving evidence next week, I believe. The Prime Minister outlined her 12-point plan, and my understanding is that the Welsh Government were not made aware of that plan before it was published. Is that your understanding?

Professor Scully: I am sorry, I am not aware of that, although I have seen the evidence that the Scottish Minister, Mr Russell, gave before this Committee. I think the burden of his evidence seemed to be that the degree of communication between the different Governments was very problematic, as was how the JMC process was working.

Q1238 **Jonathan Edwards:** What do you think has been achieved so far via the new body, JMC (EN)? Do you think it is a reporting exercise—the UK Government come and give a report on what they are up to—or do you think it is a genuine partnership of equals, if I can use that very famous phrase?

Dr Minto: The JMC structure itself is not built as a “partnership of equals” approach. It is very much a hierarchical relationship, so you have the UK Government and the devolved nations seeking to influence that UK line.

Dr Hunt: I think there is generally reported dissatisfaction on the part of the devolved representatives, and perhaps a belief that their views are not being taken on board and are not contributing to a shift in line. The timing of events is something that has been remarked upon in terms of the Lancaster House speech; the Prime Minister made the statements about the UK coming out of the customs union and out of the single market a day or two before the Welsh White Paper, which obviously made it very clear that they would like the UK to remain within the single market and the customs union.



To some extent, whatever institutional framework we have and whatever statutory underpinning it may or may not have—and of course our JMCs do not have statutory underpinnings—if the political will to agree is not there, or if it is there, agreements can be made, but at the moment there seems to be significant distance between the participants.

Q1239 Jonathan Edwards: When the Welsh Government call for a four nations approach, do you think that is achievable, or do you think the UK Government will accede to that?

Dr Hunt: We know that the UK Government's and the Prime Minister's line have been that this is a whole UK approach, so there is a commonality that the UK will be negotiating this for the whole of the United Kingdom. It will be taken from the centre, and the decision will be on what is in the interests of the UK as a whole. That vision may be different from London, as may be seen in other places.

Dr Minto: We also have to acknowledge that the JMC provides an important structure to build the relationships between people at a political level, and also at an officials level, that will be really important as the negotiations get under way, especially if there are instances—as I imagine there will be—where situations unfold quickly and it is important that somebody in London knows who to call in Cardiff, Edinburgh and Belfast. It will have that kind of contribution as well, but whether that goes beyond information sharing and substantive influence is a separate question.

Q1240 Jonathan Edwards: Do you think those relations will need to be formalised? As you say, once Article 50 is triggered, the pace of events will really overtake—the devolved Governments are not going to be negotiating with the European Commission; it is going to be the Department, the Secretary of State, perhaps even the Prime Minister herself. How are the devolved Governments going to be kept abreast of what is happening, and how are they going to be able to influence those discussions? Do you think it would be on an informal basis, as you were saying—civil servants talking to each other, calls between Ministers—or do you think it would be the JMC (EN) beefed up, with perhaps more regular meetings? How would you think that could work?

Dr Minto: What you have highlighted here is one of the weaknesses, potentially, of the JMC (EN) when we compare it to the JMC (Europe), because that provides the ability for Ministers from devolved nations to represent the UK. It is a UK line within the Council of the European Union, and there is no such provision attached to JMC (EN). What you get through that kind of being in the room is the access to information. You are there when deals and trade-offs are made. You have access to the documents as well, so that certainly is, when compared with JMC (E), a weakness of JMC (EN). It is important that there are those informal relationships as well as a more formalised structure.



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I perhaps will see if any of my colleagues have anything more to say about what could be put in place to ensure that the voices from the devolved nations do have that kind of access throughout the negotiating process beyond this informal relationship.

Q1241 Jonathan Edwards: If I could finish with a more political question, essentially, what the Scottish Government are saying is, "This is our wish list. These are our requests. If we don't get what we want, which is completely reasonable, we will call a second independence referendum". There is no prospect of the Welsh Government adopting a similar tactic. What possible leverage do the Welsh Government have when negotiating with the UK Government on this issue?

Professor Scully: I think the position of the Welsh Government is clearly very different from that of Scotland. First of all, they do not have a political mandate to resist Brexit in any sense. Wales voted narrowly, but nonetheless clearly, for leave. Even though the Welsh Government and the overwhelming majority of Members of the National Assembly and Welsh MPs supported remain, there is not that sort of political mandate behind them. Secondly, as a crude matter, Wales does not really have anything it can threaten London with, realistically. In certain ways, I suppose, both Northern Ireland and Scotland have the ability to say to London, "Well, if you don't give us what we want, then things that make you uncomfortable might well happen". It is much more difficult for Wales to make any credible threat there.

I think there is also a fundamental difference between the political orientation of the Scottish Government and the Welsh Government. The Scottish Government are a party that believes in an independent Scotland. The position of the Welsh Government is rather different, not that they are satisfied with the UK as it is. I suppose it is what is embodied in the White Paper that was agreed—the common ground they found with Plaid Cymru and what you might call a radical devolutionist unionist position, so wanting to remain within the United Kingdom but, nonetheless, wanting the United Kingdom to be fundamentally remodelled on its constitutional basis. As I say, the unfortunate position of trying to realise that position is that this is the only Government that really believe in that.

Q1242 Alistair Burt: That leads nicely into my area of questioning. Good morning. Thank you very much for coming to see us.

We are seeking your advice now on devolution and the impact of Brexit upon it, and your thoughts on the Great Repeal Bill. It is said by some commentators that Westminster does not fully appreciate the consequences of Brexit on devolution, and that it is much more complicated than it has appeared to be up to now. Could you give us a brief sense of why you think that is the case, if you do?

Dr Hunt: Thank you for that. I think the starting point has to be a recognition of the fact that the last 20 years of devolution have taken



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place within the context of EU membership, and that we have only known this experience of devolution with the UK being a member of the EU. EU membership provides a framework for governance within the United Kingdom, and it creates various opportunity structures for Wales, Scotland and Northern Ireland to participate in decision-making. We heard reference from Dr Minto earlier to being able to participate in representing the UK line in the Council of Ministers. EU membership provides a framework for regional interests to be advanced, and so in some ways it accommodates what might be an impetus for independence or for separatism on that level.

As we understand how the United Kingdom works, how decisions are taken and where decisions are taken, we have to understand the impact of EU membership. The devolution agreements and the legislation there are all constructed on the assumption that we are part of the European Union. At a very basic level, there are statements about what can and cannot be made and the legislation that can and cannot be adopted, and the statement that if measures are adopted in Wales or in Scotland that do not comply with EU law, they are not law. More generally than that, when you read through those areas that are reserved or that are conferred, it is constructed around an understanding of our membership of the European Union. Things are defined by EU regulations, EU directives, so there is going to have to be some quite fundamental as well as very detailed working through the devolution agreements.

Of course, there is the big issue of the repatriation of competences and where these powers go, and there are tensions there in our understanding of where they will flow to. At the moment, we have a situation where decision-making on matters such as agriculture and the environment is shared decision-making: there are decisions that are taken at an EU level, but there are opportunities for Wales and Scotland to feed into that decision-making process. When these come back, and when measures are then implemented at a UK level, there is space there for Wales and other parts of the UK to implement it on their own terms within a common framework.

Q1243 Alistair Burt: Essentially, what you describe is a framework that has been developed over the years, which, because of the EU's recognition and understanding of regions, has provided not necessarily an avenue to greater independence or anything like that, but a safety valve. It has provided something where regional interests are taken into account in an overall structure. If that was to be lost in a new settlement, clearly your concern is that there would be increased pressures, because somehow the avenue where voices have been heard and been part of a consultative process to make decisions would not be there anymore, unless we find one.

Dr Hunt: I think there are real concerns about that, and whether the signals that we are receiving at the moment about the position of the devolved nations are just in the decision-making about creating the UK's



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line on Brexit. But then, looking to the future, what space will there be? Will the current JMC and legislative consent motions be sufficient to handle a desire for shared governance within the United Kingdom? At the moment we draw lines and say, "This is handled here, and this is handled centrally," or "This can be devolved." When we look at something like agriculture, at the moment it is presented as a binary decision: that is either going to come back to London, or it is going to be devolved, when, as things operate at the moment, it is shared. There is a decision that may be taken, but there are various elements within that with more or less space for decentralisation. It is being able to capture those in a decision-making framework for the United Kingdom.

Professor Scully: I think the UK Government's White Paper on this, when they talk about the strengthening-of-the-Union element of the Brexit policies, is really a model of vagueness. They talk about no decisions currently taken by the devolved Administrations being removed from them, but there is a complete lack of clarity: what in practice do we mean by a decision?

With the example of agriculture that Jo just mentioned, a great deal of policy is set at the European level, with opportunities for Wales and the UK to feed into that decision-making process, but then quite a lot of the implementation conducted with agriculture is a devolved responsibility by the Welsh Government. If you remove all of the European level decision-making and policy framework setting, would that then just all be done at the UK level? You could do all of that at the UK level and still say that, consistent with the wording of the White Paper, no decisions had been removed from them, but in terms of the understanding of the devolution settlement, within the UK, agriculture is a devolved responsibility. In fact, some people could say that, effectively, most of the responsibility has been taken from the devolved level to the UK level.

Q1244 Alistair Burt: One would imagine that all your representatives, both in Westminster and locally, will want to try to devise structures with the maximum amount of consent about where powers are devolved to. Apart from agriculture, which you have already mentioned, what are the other issues already devolved to Wales that you would now expect to be further devolved after Brexit, and what do you anticipate might usefully be held at Westminster? Is it none of them, or will there be a mixture? When you look at the powers that are currently devolved through the EU structure to Wales, do you expect them all to stay more or less the same, or will there be a further consideration? As an example, agriculture will have elements that will need to have a national framework as well as just purely locally, but what other sectors will involve a decision as to whether or not stuff goes to London or to Cardiff?

Professor Scully: I think my colleagues may have more to say on the specifics of this, but as a general point, I would say that in relation to Wales there is a particular problem with this issue, in that we have just had the recent Wales Bill and the Wales Act that has fundamentally



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remodelled the whole Welsh devolution settlement and an attempt to move from a conferred powers model to a reserved powers model. I think pretty much all independent observers think that this was extremely poorly done, and that we have introduced a very poor and extremely complicated version of a reserved powers model.

Even if we did not have all the complications of Brexit, there is going to have to be a lot of work just simply working out the new parameters of the Welsh devolved settlement. What we will be changing from, in terms of the implications of Brexit, is in itself not at all clear. The new model that has been introduced is regarded by most people as having been, frankly, an extremely poor effort at remodelling the Welsh devolution settlement.

Dr Hunt: In terms of policy areas, we have identified agriculture as being one of the key ones. There are not that many that are both Europeanised and devolved.

Professor Scully: There is fisheries, perhaps.

Dr Hunt: There is. There is agriculture. There is environment and there is fisheries. Then there are other areas. Just to pick up on that move from a conferred model to a reserved model and some of the things that might have been lost in that, at the moment there is a sliver of competence around employment law and industrial relations that will be lost when we move to a reserved powers model, so with any distance between the Governments in the UK on social rights, there is no space there for Wales to take a different line in terms of a legislative settlement. There has not been a particular claim that has come through in the White Paper for having the power to legislate for Wales over those issues. That is past. We had the Wales Bill that became law in January this year. That was before the Houses of Parliament discussions about whether or not there would be competence over employment issues, and that did not get accepted.

In terms of what might need to be centralised, we know that as things currently stand, the devolved nations have no competence in relation to external matters, so no competence in international trade. That remains a reserved issue, but there are going to be clear areas of overlap there. We are negotiating free trade deals with New Zealand. We have had mention of the livestock issue in Wales.

Alistair Burt: The lamb issue will be very obvious.

Dr Hunt: Absolutely, those sorts of things. There is that overlap of policy sectors, the reserved and the devolved, assuming that the current devolved settlement continues.

One thing that we have seen coming through—as well as reserving international affairs and whether there is a case for creating a greater opportunity for shared governance and decision-making in areas such as



that—is the importance of the UK’s own internal market, the UK as an economic union, and free movement between the different parts of the UK and whether greater divergence between the different parts of the UK may create obstacles to free trade within our own United Kingdom. That is something that the Prime Minister has highlighted when talking about the return of competences. They may go back to Scotland and Wales, they may go back to London, but wherever they go, they should not be creating any new barriers to trade.

As things stand, the EU and the free movement provisions of EU law handle that for us in quite a substantial manner. The demands of the free movement of goods principles deal with issues that might arise if we saw a lot of divergence in national/subnational law, so national and Welsh and Scottish measures will be tested against the demands of the internal market. Now the question is how much space there might be within the UK for divergence; that is something that will need to be determined.

Q1245 Jonathan Edwards: I am glad you mentioned international trade, because I think that is one area where we would have to move to some sort of shared competence arrangement. If you have a UK Government deciding that it wants to open up public services, for instance, in a trade deal, that is obviously going to impact on devolved competence. To go to the comments made by the First Minister this week when he was talking about the UK single market and having some sort of judicial process to police that internal market within the UK, would I be right in saying that essentially what he is advocating is along the lines of what my own party have been saying: that we would have a UK/EU model, if that makes any sense to you, where the member states of the UK are the single market, the common market or the internal market? Is that how we understand the comments of the First Minister?

Dr Hunt: I am not specifically aware of what was proposed there, but there are different models that could be used. We see with the EU's own model that that is a very robust reading of the free movement provisions and how much that creates limitations on what states can do. That is enforced judicially and with a powerful enforcement mechanism there. If you look elsewhere, other countries may do things differently and may approach it more as a political rather than a judicial mechanism to try to bring together harmonisation or co-ordination of those issues. Those are choices to be made. I think what we are seeing coming through time and time again now is that the EU does present some very positive suggestions of how shared governance may be done, the sorts of structures that might be used and principles such as subsidiarity being at play, and that there is a demand to implement some of those principles and structures on a national level.

Professor Scully: On the First Minister's comment, some of what is in the Welsh Government's White Paper does illustrate the fundamental issue within the UK. We have moved quite a long way on what scholars sometimes term self-rule for Scotland, Northern Ireland and Wales. I



think there are varying degrees of enthusiasm for that, but there is a broad understanding of that. There is another element to territorial governments that scholars often talk about, which is shared rule, whereby the constituent elements of a state participate directly in the governance of the state as a whole. Examples include the second chamber of the German Parliament, where the Länder governments are directly represented. In other examples—Australia, for instance—part of the whole resource allocation model involves the different territory and state governments participating more or less as equals with the federal governments. That is a whole dimension of shared rule about which there is very little understanding, never mind sympathy, within Whitehall and much of Westminster. Certainly the UK has done virtually nothing in moving to proper formal mechanisms of shared rule.

Q1246 Peter Grant: Could I go back, Professor Scully, to one of your comments earlier? I think you said that the position being adopted by the Welsh Government and Plaid Cymru is looking for a substantial remodelling of devolution within the United Kingdom. The Scottish Government's paper on Scotland's place in Europe suggests something very similar. Clearly it is not the Scottish Government's or SNP's first choice, but the White Paper is essentially a compromise that has said that if the UK Government are prepared to listen to us on single market membership—I think Nicola Sturgeon is on the record as saying that could take the independence referendum off the table for the foreseeable future. Does that suggest that there is significant opportunity for common ground being established, certainly between the Scottish and Welsh Governments, as a way of saying to the UK Government that there is a way here that we could get a genuinely all-UK deal that means, rather than one part of the UK decides and the rest of the UK has to follow it, it is an all-UK deal that genuinely has meaningful input from all parts of the kingdom?

Professor Scully: Yes, I agree. I think there is clearly some common ground there. This does not represent what would be the ultimate ambition of the Scottish National Party and the Scottish Government, but they proposed some compromises there. There is quite a lot of common ground, certainly at least in terms of the broad principles, with what is set out by the Welsh Government in their joint White Paper with Plaid Cymru. As I think I suggested earlier, it would require a very substantial remodelling of the fundamental basis of UK governance. I think those fundamental remodellings of a state are extremely difficult to manage, even when pretty much everyone agrees on the principles. The problem is that there is very little fundamental agreement on those principles. Trying to remodel the whole basis for the UK state while you are also dealing with Brexit—which is, many people would agree, the most complicated thing the UK state has tried to do since fighting World War II—would be, to put it mildly, challenging, and there are very little signs of great enthusiasm for doing that within the UK Government.

Q1247 Peter Grant: Thank you. Some of the pronouncements I have heard



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from colleagues in the House of Commons would almost make you think that they view some of our European partners in the same terms that they did during World War II, but that is maybe a debate for another day.

I want to pick up on the answers that some of you gave primarily to Alistair, and I think Jonathan picked it up as well, as to where there might be significant divergences in policy priorities between Wales and Westminster that are not adequately addressed in the current devolution settlement. Can I, first of all, look at an area that has traditionally been reserved, which is international trade agreements? Jonathan mentioned that one possibility for an international trade agreement opens up public services to competition, which may be against what the Welsh Government want to do. Another possibility is that we go into trade agreements with countries such as New Zealand and Argentina, which are very keen to sell us farm produce, particularly meat, which particularly has a major impact on the economy of Wales. What would need to be done within the existing devolution settlement to make sure that an issue that is potentially almost catastrophic to the economy of Wales, but on a UK scale is simply a minor inconvenience to 60 million people, is not allowed to mask the fact that it is devastating for 2 million or 3 million in Wales?

Professor Scully: I think it is extremely difficult. My colleagues may have more to add on some of the details of this, but I think at the moment the only sorts of mechanisms are things like joint ministerial committees and other forms of informal consultation, and attempts by the devolved Governments to make the UK Government aware that there are compelling, particular interests at stake that need to be incorporated into the UK Government's position. Examples you gave there are very telling. It is entirely possible for the UK Government to do things in areas of their responsibility that would potentially have huge, maybe catastrophic, implications for the devolved Governments in their areas of responsibility, like management of key public services and the management and maintenance of agriculture. It can very easily be the case that the UK Government, acting in relation to their international responsibilities, can do things that would have immense spill-over consequences. At the moment there is no formal mechanism for the devolveds to inhibit that. There are mechanisms for consultation, but not really much beyond that.

Dr Hunt: One that we know has had a lot of attention recently is, of course, the powers that regional bodies may hold, such as the regions in Belgium, and their international powers that far exceed anything that Scotland or Wales has within the United Kingdom. When it came down to signing an international treaty, there is the power there for each of the regional Parliaments to be able to delay or to withhold consent. You see their regions with competence on the international field and whether there would be a desire to replicate that in some way in the UK model—it is not something that has been advocated from within Wales, apart from Plaid Cymru. Apart from Jonathan, all right.



Dr Minto: I would agree with comments made by my colleagues. The Welsh Government and Plaid Cymru White Paper highlighted the need for these international trade agreements that will be established when the UK is outside the EU customs union and for the UK Government and the three devolved Governments to enter into these voluntarily and to consent to these agreements.

Q1248 **Peter Grant:** Another significant area of reserved power is that, as EU members, the United Kingdom Government are somewhat restricted in the whole area of employment law, for example. Scotland and Wales traditionally have tended to like politicians who take a somewhat different view of employment rights from some UK Governments that we have had. Do you see an emerging need, an emerging demand, coming from Wales after Brexit for employment legislation to be more devolved to Wales, so that if the Welsh people vote for it, they can have employment legislation that is more protective of the rights of workers than we might see coming through from Westminster?

Dr Hunt: Devolution is itself an ongoing process, but the stage that we are at in Wales is that, of course, those things have been discussed and rejected very recently in the legislation that was passed in January. It was not done without a knowledge that Brexit was coming. It was taking place at the same time. At the moment, that is not part of the package for Wales. It may be that there is going to be a demand for it further down the line if we see a great divergence beginning to emerge in the political positions within Wales and within London, but that is not where we are at the moment.

Dr Minto: We have heard the UK Government say that they will be ensuring there is not going to be any roll-back of the employment rights that we have within the UK post-Brexit. I think it is also important that we note that Theresa May has said that if the UK cannot secure the kind of access it wants to have to the single market, then it is in a position to be able to change the economic model within the United Kingdom. Potentially attached to that, there could be consequences for the future of employment rights. There you might see a greater divergence in policy preferences between London and Cardiff.

Peter Grant: Just before I finish—I know we are pushed for time—some of the most enthusiastic supporters today of devolving immigration and employment legislation to Scotland voted against it in the House of Commons less than 18 months ago. It sometimes does not take long for people to see sense.

Q1249 **Stephen Timms:** Can I start with a background question? You mentioned there was a modest but clear majority for Brexit in Wales in the referendum—similar to the UK-wide result, but very different from the result in Scotland and in Northern Ireland. Do you think there were distinctively Welsh factors behind that outcome, or were the factors in Wales pretty much the UK-wide factors?



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Professor Scully: If you look at the demographic mix of the vote, the areas that voted leave and remain, and the detailed research that has been done on an individual basis about what sort of people voted leave and remain, there are very strong commonalities in the patterns for Wales and England. I suspect that one of the reasons for that is that we had very little Welsh-specific campaigning in the referendum. It came only seven weeks after the Assembly election campaign. Both the Welsh parties and the Welsh media are pretty thinly resourced, and they had thrown pretty much everything they had at the Assembly election. We had very little of a Welsh dimension to the campaign. I think the campaign was overwhelmingly dominated by UK-wide figures and UK-wide media, and Welsh interests and concerns were not really brought to the fore.

It is not perhaps terribly surprising that you saw a great deal of commonality in the sorts of people that voted remain and leave in Wales and England. Relatively impoverished and post-industrial communities tended strongly to vote for leave. If we look at the individual types of votes, education level was a strong predictor of vote. Relative income level was also quite strongly related to voting patterns. It is very similar in much of Wales as it is in England, with the consequence, for instance, that we saw pretty much all of the Labour Party's historic bastions in Wales voting for leave, even though the Welsh Labour Party was almost unanimously behind remain.

Q1250 **Stephen Timms:** Do you think if there had been more time and resource for a specifically Welsh campaign the outcome might have been different?

Professor Scully: It is obviously very difficult to say. It might have been, but having talked to people in various parties, it was extremely difficult to enthuse grass-roots campaigners, many of whom had worked very hard through the Assembly election campaign only a few weeks before. Yes, with more of a Welsh dimension and more of an emphasis on Welsh interest, it is possible that the result may have been different. But in the regular opinion polls that are run in Wales, the Welsh Political Barometer, which is a joint venture by the Wales Governance Centre, ITV Wales and YouGov, had been showing things as being very close for the vast majority of the two years beforehand.

The self-image that some Welsh politicians like to present of Wales as a very strongly pro-European nation was not really being borne out in the evidence for quite some time before the referendum, and the final poll got very close to the actual result. I do not think it is that the polls were wrong for all of that period. They were getting pretty close to the true picture, which is that Wales was very evenly divided for quite some time, and it was not a major shock. It should not have been a major shock that Wales in the end voted leave.

Dr Minto: I do not want to focus on the UK's relationship with the European Union as being just a transactional one, but I think that is important when we think about the distinctive relationship between Wales



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and the European Union, and particularly the importance or the significance of EU funding within Wales. It was very interesting that—and I absolutely agree with Roger—in that seven-week period between the National Assembly elections and the referendum taking place, we did not really hear a very distinct Welsh narrative around Wales's specific relationship with the European Union, despite the fact that Wales is a net beneficiary of European funds, specifically through the common agricultural policy and structural funds. There are outstanding questions about how those funds are going to be replaced, post-Brexit, and the implications this will have for economic development and farmers farming within Wales. I think I would just reassert what Roger has said about that distinctive relationship that exists between the European Union and Wales, not solely on the grounds of funding but also including funding. We did not see that.

Q1251 Stephen Timms: Can I ask a more technical question? There is obviously going to be additional work and new opportunities of various kinds arising from Brexit. Do you think the Welsh Assembly Government and the National Assembly for Wales have enough administrative and political capacity to take on the additional work and make the most of the opportunities?

Professor Scully: The Wales Governance Centre has been looking at the issue of the size of the National Assembly for some time, even before Brexit came on the agenda. The Assembly was set up in the late 1990s with 60 Members—much smaller than both the Scottish Parliament and the Northern Ireland Assembly, but that was possibly justifiable at the time because it had very limited responsibilities; it had secondary legislative powers only. We now have pretty much full implementation of primary law-making powers for the National Assembly. More than 10 years ago, the Richard commission said that if the Assembly received that, it ought to be increased in size from 60 to 80 to deal with that. We also have coming on stream significant taxation and borrowing powers for the Welsh Government, plus we have the manifold implications and consequences of Brexit.

On top of that we have, as I referred to earlier, the fundamental change in the model of devolution for Wales. It is, to put it mildly, highly implausible to think that the National Assembly for Wales can do its job of developing expertise and detailed scrutiny of the work of the Welsh Government and looking at the implications of all of these developments for Wales, while still maintaining barely 40 Back-Bench Members. There simply are not enough people to go around all of the Committees and to have specialisms in different areas. I think the Assembly is being put in essentially an impossible position, being given a level of responsibility that it does not have remotely the capacity to properly fulfil.

The Welsh Government, if we look at the executive side, I think are also going to be very hard-pressed because, as everyone in this room I think will know, Brexit inevitably will have many, often fundamental,



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implications for many areas of responsibility. The record of the Welsh Government in implementing some of their current responsibilities has been criticised, and people can argue about whether that is fair or not, but a whole bunch of new consequences through Brexit are landing on them, and I think it is going to be extremely difficult for the machinery to cope with that without other issues being neglected.

I will say, though, just briefly and finally, that there is very much an open question of whether the UK Government and the UK state are adequately tooled up for dealing with this as well, frankly. It is not just a question of the devolveds. The UK Government, as I said earlier, are dealing with probably the most complicated thing since fighting World War II, and whether they are really in shape to do so I think is very questionable indeed.

Q1252 Stephen Timms: On your first point about the size of the Assembly—I probably ought to know this—is that in the gift of the Welsh Assembly Government? Who decides this?

Professor Scully: Not the Assembly Government. With the recent passage of the Wales Bill, now the Wales Act, responsibility for both local council and devolved elections in Wales has been passed to the Assembly, albeit that a super-majority threshold was included in the Wales Act. There needs to be two-thirds agreement on change, which will make it quite difficult to agree on change, because if you increase the size of the Assembly, you have to do something to the electoral system. Thus far, at least, there have been differential partisan incentives—so basically the Labour Party would always have benefited from a less proportional system. The other parties represented in the Assembly would generally have benefited from a more proportional system. Trying to find a change to the electoral system that is probably going to have to retain about the level of proportionality that we have now but also facilitate a larger Assembly is actually quite difficult.

The Wales Governance Centre, working with the Electoral Reform Society, in late autumn published some proposals about possible ways forward. The presiding officer of the National Assembly has recently set up an expert panel, chaired by our colleague Professor Laura McAllister, to look at some of these issues and one or two other related matters such as the voting age. There is the ability for the devolved institute to change these things now, but the two-thirds majority threshold that has been put in place—which I think is a good thing, preventing parties from being able to manipulate the electoral system easily—does mean quite a high threshold of political consensus will need to be reached. Of course, arguing for more elected politicians is never a particularly easy sell.

Q1253 Alistair Burt: Westminster is about to reduce from 650 to 600 Members. We probably have a few we would like to name to send you, but I suspect our choice might provoke some reaction in Wales, so we will spare you those.



Professor Scully: We are likely to have, in the next few years, a situation where Wales, because of its current over-representation, reduces from 40 MPs to 29, and we are also very likely to be going from four MEPs to zero. They maybe come out of different budgets, but in terms of net cost to the public purse of elected politicians, you could increase the size of the Assembly quite considerably, having lost these other representatives at other levels, and be able to make the argument that this was revenue neutral.

Chair: I will not point out that there are over 800 peers. I think I am right in saying that it is the second largest legislature after the People's Assembly of China. When it comes to reducing, perhaps we should look elsewhere. Unfortunately we have run out of time, but on behalf of all of the members of the Committee, can I say to you, Dr Hunt, Professor Scully and Dr Minto, thank you very much for giving up your time and giving us your expertise, which has been really helpful?

Examination of witnesses

Professor Brian Morgan, Professor Iwan Davies and Steve Thomas CBE.

Q1254 **Chair:** It is a very great pleasure to welcome our second panel to the National Waterfront Museum for this meeting of the Brexit Select Committee. I welcome Professor Brian Morgan, Professor of Entrepreneurship at Cardiff Metropolitan University, Steve Thomas, Chief Executive of the Welsh Local Government Association, and Professor Iwan Davies, Professor of Law and Senior Pro-Vice Chancellor at Swansea University. You have not had to travel too far today. Thank you very much for giving up your time. We have a lot of questions we want to put, a lot of ground that we want to cover. If you could keep your answers as succinct as possible, that would help us to deal with all of the issues that we want to raise.

I want to kick off with a very simple but broad question: what do you see as the main risks of Brexit to the Welsh economy, and are there any opportunities that you identify?

Steve Thomas: There are constituent parts of the Welsh economy. In local government, we are working on four different regions within Wales at the current time. There are particular risks, particularly in those areas currently in receipt of structural funds—west Wales and the valleys, in particular. If you take, for example, the rural economy of Ceredigion—a very small county, with something like 70,000 people—it will lose something like £57 million-worth of European-aided funds from the Brexit process, and £44 million of that is direct payments from the common agriculture policy.

You then go to places like the south Wales valleys, and I will declare an interest: I am from Ebbw Vale, which did get quite a bit of attention, post-Brexit, as a town that received a huge amount of European funding



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but voted for Brexit. You see the investment that has gone into those valley communities, which is something like £1.8 billion in the current programme. That is a massive amount of money in the Welsh context. Also bear in mind that for a period of time at least—you will recall George Osborne's time as Chancellor—the first part of the austerity programme largely concentrated on capital funding. For Wales at that time—2011, 2012—the European structural funds in capital terms were the only show in town. In one sense, thank God we had them. They still perhaps have not made the impact that everybody has wanted them to, but at the same time—I am going to speak as an ex-miner here—we have structural problems in the Welsh economy, which Brian will no doubt go into in some detail, that are long-lasting and deep-rooted and we clearly have not overcome.

The funding issue of Brexit is a show-stopper, particularly in local government. We had been somewhat hopeful that some of the things that might emerge from Brexit, such as not getting quite as entangled in state aid as we have in the past in the European procurement regime, might be slightly offsetting, but it seems to us that some of those things will require continued involvement in the way we do business with our European partners. Some of the good things are not necessarily as good as we possibly imagined they might be.

Q1255 Chair: The Government have made some commitments in relation to current projects, but there then comes a point where that funding will not be there, and there has been some discussion about the mechanism by which that might be replaced. Am I correct in saying that the Welsh Government have views about whether it coming into block grant is the appropriate way of doing it, as opposed to other mechanisms? Can you say a quick word about that?

Steve Thomas: I think it is the Welsh Government's view that it should come into the block grant of the Welsh Government's budget. There are ongoing projects. A classic case in point: the biggest project in the Cardiff capital region at the current time—we were discussing this yesterday—is the south Wales metro. That project was predicated on £130 million-worth of European funding. There have been assurances given that that funding gap will be made up from a new regional policy, whatever that regional policy looks like, but that is a substantial chunk of money.

What we would want to see is a regional policy within a Welsh context, where the Welsh Government can step in and provide continued assurance to some of the most iconic projects in south-east Wales, not least of all possibly something that may help us with some of the problems we are experiencing with the M4.

Q1256 Chair: The same question to Professor Morgan and Professor Davies. The UK Government say that we are leaving membership of the single market. What is the implication of that, and what would be the implication of our failure if it turned out in the negotiations not to have continued to secure tariff-free, barrier-free trade—in other words, of the



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UK leaving the European Union on WTO terms? What would the impact of that be on the Welsh economy?

Professor Morgan: That is an area that I would want to comment on. Shall I comment first, though, on this idea of where the money from European funds goes, because we were just talking about that with Steve? In my view, we have had this promise that European funds will continue until 2020 and they will be replaced. There is a big worry in Wales that if they are replaced through the Barnett formula, that would not be the best way to use the money. The Welsh Government have £16 billion per annum at the moment. If they get another £200 million—it is effectively European structural funds plus about £200 million for the common agricultural policy—into their main budget, we would not think that would be the best way to use the money, because at the moment it does not have a very good way of prioritising its expenditure. It is very short term in the way it allocates money, and this money would simply go into a big pot and effectively be lost to regional policy. What Steve was saying was we need some effective regional policies put in place, and it would be very good to get that money ring-fenced for regional policies and delivered through some sort of executive agency. That is my view—that it would not just go into the big pot. That is just an aside.

On your main question, Chair, if we put this into context, the Welsh economy exports four or five times as much to England as it does to Europe, so any impact that Brexit is going to have on Wales will largely come through the impact that it has on the UK economy. We will be an indirect impact of the broader scheme. That is the first thing to notice. Therefore, if lack of access to the single market were to reduce UK GDP, Wales would suffer, and I have done a lot of research in this area that suggests that Wales would suffer more than the UK. We are more open to shocks, so when there is a downturn in employment, a downturn in GDP at the UK level, the Welsh economy suffers more in general. We are more open in response to shocks, and when they are negative, they have a bigger impact. That is largely where it is going to come from: the impact on the UK.

With our own trade, there are areas—Steve touched on some of those—that we would like to see protected in some way. Even if we are outside the single market and there are no negotiations going on, those would include the car industry, which is very important for Wales, the steel industry and, of course, agriculture. We could talk about a few more, but there are certain sectors that would require some sort of deal that would enable those sectors to trade effectively with Europe. Under those conditions, the direct impact on Wales would be less, but of course we still have the overall indirect impact from the UK.

Professor Davies: Can I associate myself with the comments Brian made? At one level, structural funds in Wales represent a very small part of Wales' GDP, and if pressed one would have to say that the structural funds in place might have been revisited in 2020. Effectively, we would



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be looking at ways in which you could replace structural funds with a commitment to funding infrastructure within Wales, post 2020.

As part of that process, one of the most significant elements in the structural fund process, which from a university sector we found enlightening, was the debate on how it was going to be spent. There is the importance of research and innovation, the way in which these funds are deployed purposefully to develop the kind of infrastructure for a small, clever nation. Brian's point about the way in which those funds should be ring-fenced in a certain way is well made.

You asked a question about what would be the economic impact. In a word, people. Wales has the lowest participation rate in higher education within the nations of the United Kingdom. One of the great things that Europe has provided has been the opening of mobility opportunities to students. The ability of students to see beyond their own immediate geographical location and to be stimulated by the kind of interface with young people and others throughout Europe is something where a merely restrictive, ineffective negotiation around the area of mobility could have a mean effect on the outlook of students, and particularly Welsh-domiciled students, and the impact that that has on driving up skills and the imagination required to compete globally. In my view, currently mobility of students is very low down in the negotiation priorities of the UK Government.

Chair: That is very clear and very helpful.

Q1257 **Peter Grant:** First of all, I apologise in advance that I need to leave before the end of today's session. It is the second time I have been to Wales on Committee business, and I hope next time I can stay a bit longer and see some of the place while I am here. Two of you have mentioned the importance of agriculture to the Welsh economy. At the moment, a lot of agricultural policy is set in Europe. How likely is it when all of those decisions are taken back in the United Kingdom that we will start to see a divergence of priorities between what Wales needs from an agricultural policy, compared to what Scotland, Cornwall and even London need? How likely is it we will start to see that divergence of policy, and what needs to be done so that the divergent needs and priorities can be properly addressed?

Professor Morgan: That is a very good point, Peter. It is worth emphasising that the agricultural sectors in England, Scotland and Wales are very different; you are absolutely right. One of the biggest problems, for example, for agriculture in England following Brexit or in the lead-up to Brexit is about immigrant labour. How are we going to be able to overcome the problem that 20% or more of workers in England are, at certain times of the year, immigrant labour? Funnily enough, in Wales, immigrant labour is almost zero in agriculture because we have a very different agricultural system. Ours is not arable. It is mostly hill farming and animal farming, so there is very little immigrant labour in agriculture, whereas of course in England—I am not sure what the situation is like in



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Scotland—it is very different. I would imagine that we would need to move to some sort of core determination of agricultural policy; there would need to be, in this area in particular, co-ordination between the three Governments and, of course, Northern Ireland.

Professor Davies: One should have confidence in developing agricultural policy in Wales and obviously, as Brian has said, in the context of the conjoining, the various nations of the United Kingdom. There is a famous story, post Second World War: the Ministry of Agriculture at that time talked about the name of Stapleton, who was Professor of Agriculture at Aberystwyth, and the contribution that Aberystwyth made at that point in time to the war effort in securing food. The Ministry of Agriculture said that the word Stapleton should join in the public mind as much as El Alamein and Montgomery. We have the capacity.

The issue here relates to recognising the particular needs of Wales—and particularly the hill farmers of Wales—and the need to innovate in agriculture. For me, talking as a lawyer, the regulatory issues are not trivial and will take a huge amount of time of the House of Commons and related devolved jurisdictions.

Professor Morgan: Could I add one more thing? I should have put it in my answer, but coming out of the CAP would be a good thing. Getting away from all of that European bureaucracy would be a great thing, and that is why a majority of the farmers in Wales voted to come out of the European Union, but we do need something better to put in its place.

Steve Thomas: The feedback we get from the rural authorities is that they are concerned about a number of things. One is ensuring the products that currently have protected special status remain in place. You have things like Pembrokeshire early potatoes and Anglesey salt, which are all signatures of quality. It is important that status is preserved in some shape or form in trading within the wider European market.

This goes to a slightly wider level than just agricultural policy, but one issue that we have in public services is that some of the rural areas in particular are suffering a form of depopulation in Wales. The result of that is they probably now get less money than some of the urban areas in public service provision. That will continue in this context but will also be hit by the double whammy of coming out of the EU.

One of the things we are very conscious of is that going forward the rural areas in particular will be on the sharp end of all this, and we think there has to be some sort of rural protection put in place, particularly in the Welsh context, because, as Brian says, this is not a normal agricultural market. Farmers of Monmouthshire are in a very different position from the farmers of some of the small Welsh hill farms.

Q1258 **Peter Grant:** Moving on from that, do the Welsh Assembly and the Welsh Government have adequate powers just now to be able to play a



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full part in the new set-up, whether it is co-decision making or devolved decision-making? Related to that is an issue that came up in an earlier session: do they have the capacity, in terms of the numbers of elected politicians, civil servants and support staff and overall resources? Does Wales currently get enough funding to be able to take on those additional responsibilities as well as what it already does?

Steve Thomas: I met a trade delegation yesterday from Bangladesh who said that their greatest problem is the inability to have sufficient expertise from Bangladesh to negotiate national trade deals at an international level, and they quoted their numbers. They have probably more international experts than we have. There is a huge job with capacity in how we go forward. The Welsh Government is not an institution that is traditionally centred on foreign policy. It has a big relationship with Europe, but it is not that sort of wider relationship so, yes, there will be a capacity issue among the civil servants. There is a consultation, and there is a debate going on about politicians. Professor Laura McAllister is looking at the number of politicians within the Assembly, and we will wait to see what she comes up with.

Professor Davies: The issue of preserving and building on regulatory capacity and standards is not one confined to agriculture. It is one across the entire spectrum. The issue of capacity and timing and ensuring that you have a timely recognition of standards could be the biggest hurdle in the post-Brexit scenario.

The numbers are quite profound. There are examples of huge challenges within the Welsh Assembly simply because of the volume of legislation. We are in the early days of legislation making in Wales. That is a big issue and one perhaps that needs to be grasped. The public imagination needs to be fired up in this regard, to accept that government requires people to govern and also to oversee legislation.

Professor Morgan: The Welsh Government have made problems for themselves over the last 10 years or so in taking on increasing numbers of responsibilities. They have been very keen to take on responsibilities in various areas that they did not have competence in previously, but without any funding stream. We are now in a position where we have a lot of increased responsibilities but very little funding has come behind those increases; that is the problem we are facing. You are absolutely right: if we are going to go down this route now with more responsibility in relation to agriculture and so on, in relation to Brexit, there must be a funding stream to support it.

Steve Thomas: We are spending a huge amount of time currently dealing with the devolution of teachers' pay and conditions. In the great scheme of things, we are not that bothered about where teachers' pay and conditions sits in London; it is not a problem for us. Quite why the Welsh Government want that at the current time when they have all of these other things they need to do—



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Peter Grant: Thank you. One action point we will take from that is that the Secretary of State for Exiting the European Union would like the phone numbers of some of these negotiators in Bangladesh.

Q1259 **Alistair Burt:** I want to come back to agriculture, if I may. I represent an agricultural constituency, and I am very conscious that many farmers now have what they wished for, which is a blank sheet of paper marked “agricultural policy”, and they now have their chance to write it. Professor Morgan, you mentioned the regulation issue. From just the experience and from saying that, what sort of things do you think agriculture will see as an opportunity and say, “We can do without x, y and z, and this is what we can do”?

Professor Morgan: Do you mean just in terms of the regulations?

Alistair Burt: In terms of the regulations that you mentioned, yes.

Professor Morgan: There has been a huge problem in Wales with the different funds that have been put in place to support agriculture. They have been very difficult to access and very ephemeral; people did not know how long some of these funds were going to be in place. Farmers have been disadvantaged by getting up to speed with a particular fund only to find that the European rules had changed and either that they were now not eligible, or a completely new fund had been put in its place.

We have been responding to CAP in different ways. I would imagine it is the same in Scotland. We have responded to CAP and introduced common agricultural policies into Wales in a way that is different from England. Quite often, they have been ephemeral and they have caused a lot of dislocation of farmers. From the farmers’ point of view, if something was stable—a stable fund that they know the rules of engagement for—they were able to access that funding, and the same level of funding was made available and was focused far more on agricultural efficiency and meeting market needs, then we would have a far better agricultural sector in Wales.

Q1260 **Alistair Burt:** I am going to be speaking to the NFU later, so please, if this is getting too much into the weeds, just say so, but if you look at welfare policy and the like, if Wales is going to continue to export particularly lamb into the European market and everything else, clearly if the regulations that already cover the export of products to Europe change on the continent, we are going to have to change as well, because we are going to have to meet those standards. Are there any of those regulations that have proved particularly irksome that may cause a problem, or is it going to be relatively straightforward, provided we have a mechanism that knows when regulatory changes are being made in Europe? If we have a mechanism that knows about them and transfers them into our legislation, they should not be too much of a problem.

Professor Morgan: I would disagree with what you just said. I do not think there would be a problem. Agriculture is one area where we would need some sort of sectoral negotiations for access and making sure that



the full rules and regulations of non-tariff barriers were minimised. Welsh lamb is one of those areas. We would be greatly disadvantaged if those rules were to change in such a way that we now have non-tariff barriers that were very difficult for individual farmers to meet. If they do change in that way, it would be a problem, but in general, if there were some general changes in Europe and we have to sit alongside them, I do not see that as a problem.

Q1261 Alistair Burt: Can I look at the other side of the coin? One aspect of trade policy is exporting into the EU, access to the single market and the like, and the other aspect is new trade agreements with new partners or partners in a different way—Australia, New Zealand and the United States come to mind. Do you have any observations on what the United Kingdom might be particularly conscious of if it opened up its agricultural markets to any of those that I have mentioned?

Professor Morgan: I see that as a big problem area, because as we move towards free trade, we will be negotiating across different sectors, and if we want people to open up their markets to our cars, for example, we might well be—erroneously, in my view—agreeing to open up our market to their agricultural produce. That type of increased competition in the short run would be devastating for Welsh farmers. What we need here is the Government to realise that their key role in all of this must be to ease the transition.

Welsh farmers, and UK farmers in general, can become more competitive and we can move in that direction. If we use agricultural subsidies properly, we could focus them on efficiency within the farm sector, as they should always have been done. Then, instead of hiding behind tariff barriers, we would have become more efficient in our farm production. It is a matter of becoming more efficient but slowly opening up our market to other people's agricultural imports.

Q1262 Alistair Burt: Are there any particular implications for the Welsh whisky industry?

Professor Morgan: We did say after Brexit, "Whoopee, we can now go to duty-free trade with Europe".

Alistair Burt: We wish you very well on all that. Thank you.

Q1263 Stephen Timms: Can I ask you some questions about migration? You made the point earlier that there are not many migrant workers in agriculture in Wales. Are there sectors and types of work in Wales where there are significant numbers of EU migrants and, if so, where are they?

Steve Thomas: The health service has a good proportion of EU migrants working; something like 1,200 people in the Welsh health service of 72,000 are EU nationals, and a high percentage of those are doctors. Local government across the UK has 12% EU nationals working in the social care profession. That varies from region to region. In the north-



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east it is something like 3%; in London it is 12%. There are considerable numbers of people working in these professions.

We also have a range of things that we have been moving to over recent periods for some of our procurements. We have just procured, jointly with Viridor, a large energy from waste plant in Cardiff. There are numerous EU nationals who work in that. There are a considerable number of people, however not to the level that you see in certain parts of the UK economy, particularly the south-east.

Professor Davies: I can speak for the higher education sector: the latest HESA statistics show that in Wales there are 1,355 EU staff compared, for example, to nearly 1,000 non-EU staff from outside the European Union. That is within the context of a sector that in broad terms employs about 21,000 academic and non-academic staff.

Stephen Timms: 5% or 6%—is that the sort of proportion?

Professor Davies: Yes. A key point, of course, relates to the skills of the EU staff in question. For us, the importance of ensuring access to those skills, and the reputation of higher education and universities in Wales from the research outputs that come through collaboration, are mission-critical to the way in which science operates. It operates in a borderless world. For us, part of that process would be not simply ensuring continuing recognition of the ability of EU staff to remain, but being open to the world for the best, highly skilled international researchers and staff.

Professor Morgan: I would certainly second that. In general terms, to answer your question, there is no sector in Wales that has immigrant labour from the EU above 10%. There is no sector. In the bigger sectors that have, as Steve was saying, quite a bit of immigrant labour, most are not from the EU. It is not an EU immigration thing. The sectors that have the most tend to be manufacturing, distribution, hotels and restaurants, and tourist-related. Those are the areas that approach the 10%, but in other sectors in Wales, it very much is a case of not very much immigrant labour being used.

Q1264 **Stephen Timms:** I was going to ask you about the hospitality sector, because certainly elsewhere across the UK there are large numbers of EU migrants. You are saying there is a largish number but not as many as elsewhere.

Professor Morgan: I think so. I am not sure to what extent EU labour and non-EU labour is dominant in the rest of the UK, but certainly in Wales it is still less than 10%. I agree entirely with Iwan that we should make sure those people have the right to stay and in future, if they have jobs over here, they should be allowed to come.

Q1265 **Stephen Timms:** In light of that, what do you think the issues in Wales would be if new restrictions on migration were to be introduced, as they are very likely to be?



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Professor Davies: Agriculture, of course, is critical to the Welsh economy, but so is HE. In many respects, HE is probably a bigger sector in terms of its contribution to the economy and particularly the services it provides. It is sometimes missed in the calculations of Wales' GDP, for reasons that mystify me.

However, to answer you specifically, the threat to Wales from not having access to these scales or to having them on a restrictive basis is counterintuitive to education and higher education, particularly as a knowledge business. Such a business knows no boundaries. Part of our process would be to ensure that we could create a vision for Wales that is one where we are open to international staff and student collaboration. Without that, the essential USP of universities as global industries fails.

Q1266 **Stephen Timms:** The Welsh Assembly Government have proposed a stronger link between employment and the right to remain, or the right to come from elsewhere in the EU. I think there is a good deal of merit in that idea. Do you have any comments about whether that would be an arrangement that would work well for Wales?

Professor Morgan: We certainly need to be as open and international as is feasible. Most people would say that completely unrestricted immigration causes difficulties eventually in a number of areas, so you do need to have controlled immigration. That idea that it should be related to employment opportunities and skills has to be the way forward.

Professor Davies: For me, the opportunity here is for the UK more generally, and Wales perhaps more specifically, to host international institutions of calibre. Therein lies an opportunity that looks beyond the EU but essentially underpins the international credentials of the UK, and particularly opportunities for Wales. After all, we have brilliant scientists and CERN, and wonderful collaborative international research areas have involved senior Welsh academicians. It is true that in any laboratory in the country and the UK, you will see not homogeneity at all, but rather diverse and wonderful differences of culture, because it is at the clash of cultures that you get innovation.

Q1267 **Stephen Timms:** There has been a suggestion in some quarters that different parts of the UK should be able to implement regional immigration policies, so that you had a visa that permitted you to live and work in Wales but not elsewhere. Presumably you could travel elsewhere, but you would not be able to live or work there. Do you think if that was permissible it would be an advantage for Wales to offer an operating arrangement like that?

Professor Davies: I would strongly support that for the following reasons. First, to have an all-UK system can discriminate against Wales, particularly in the context of the kind of salary levels required to remain in country for students, post-graduation. Secondly, recently, as part of my internationalisation remit within the university, I returned from India and one of the things that struck me is how hugely competitive the world



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is. For example, the Irish have recently implemented their own internationalisation strategy that is a post-graduation right to stay for two years within the country. That drives up skills levels.

Recently I entered into a research collaboration with one of the IITs in Mumbai. That is about promoting information technology, computerisation, and humanisation of technology, and requires a transfer of skills and opportunities to build up the kind of knowledge and expertise that we need here in Wales.

Professor Morgan: I support some of what Iwan has said, but I cannot see why we could not have a UK-wide strategy on this. I cannot see why a specific Wales one is needed to overcome any of these barriers—links with India and elsewhere. I cannot see why. I pointed out earlier that the Welsh and UK economies are so integrated that you cannot differentiate between them. I could not see a just Welsh policy being implemented effectively.

Stephen Timms: I think Mr Thomas has the casting vote.

Steve Thomas: From our point of view, what we want to ensure—let's get back to basics—is that we have enough people coming in to run our services in a professional and quality way. If you take something like social care at the current time, there is a large contingent of EU nationals in there and we are struggling to recruit. If you go on any recruitment website today you will see hundreds of jobs for domiciliary UK and residential UK. We have a massive recruitment problem. Part of the reason for that is that the model we employ on in that sector is cheap and not very cheerful. We are rightly moving up towards a proper minimum wage, but we are not there yet. The model only works because of that. We need access to as many employment markets as we can get. There are Welsh-specific conditions for some of that. We would be interested in exploring the idea of a devolved approach.

Q1268 **Jonathan Edwards:** Like all good witnesses, you have already covered the points that I was going to make, so perhaps we will expand a little. I have little doubt the Chancellor will announce some sort of geographic economic policy. It was the first question I asked him following his first autumn statement. On Tuesday, during Treasury questions—not in response to me—he made some positive noises on that front. The question then is: how is that frameworked? Would your preference be a UK-wide geographic policy administered from Westminster, or an English regional policy that is acting in the band of consequential that would enable the Welsh Government to come up with its own strategy, either doing it directly via the Welsh Government or by forming an arm's length body? What do you think would be most effective?

Professor Morgan: My role is not to criticise the Welsh Government in this area, but they have not done a good job of economic regeneration and economic development in Wales. They have those powers within the Assembly, within the civil service, and they are not making effective use



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of them. They are not prioritising properly and they are not able to develop a long-term strategy. We do not have an economic strategy, as you will be well aware, Jonathan. We do not have an economic strategy for Wales.

It seems to me that we do need to do things differently. Anything that would bring funds into Wales that could be allocated by a far more targeted agency—not even perhaps a Wales-wide agency; it could well be three agencies in Wales for the city regions that are forming—that is focused very much on the local conditions, the local needs and the local opportunities. That type of focus would revolutionise the way economic development is achieved in Wales. It would be a lot better than what we have now, but as for the two you suggested, I am not sure how they would differ one from the other. I was suggesting that the EU funds would be replaced and simply be ring-fenced and delivered by an agency. If that agency then were able to get the regional funds that the UK Government, on a broader field, were going to introduce, that would be a good thing.

Steve Thomas: To answer your question, you have to go back to regional policy prior to European funding. I worked in a local authority when we dealt with assisted areas, development areas, and a range of others. Was it a coherent regional UK policy? No, it was not. I am not going to pretend that it was. In one sense, you could trace a development of UK regional policy from Wales from the old Assisted Areas Bill, which goes back to the 1930s.

There has to be a Welsh dimension to this. The idea of just lobbying out a great UK-wide regional policy and adding that on to the Barnett formula is not going to be the way forward. There are things that the Welsh Government can learn, and clearly some signals are that they are taking stock of where they have to do so.

We have seen an announcement in the last couple of weeks that the Communities First programme, which was the major anti-poverty programme in Wales, was not going to continue in its current form. I think, and my members think, that is right. It is time to look at a programme that has been in place for 15 years, and the levels of poverty are still hard and difficult to tackle, but there has to be a bespoke policy as well. The idea that we have a UK-wide regional policy with a Welsh bit, a Scottish bit and a Northern Ireland bit does not make any sense. Previous experience tells you it is not sympathetic enough to the problems that the devolved nations face, and as a result of that it has to be much more bespoke.

Q1269 **Jonathan Edwards:** On top of that, at the moment, essentially for the highest form of structural funds, Wales is split in two, isn't it? You have west Wales and the valleys, which qualifies because of lower GDP compared to the eastern part of the country. The Secretary of State for Wales has been talking about a system that is far more micro-based,



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maybe even at ward level, in terms of that geographic policy. Do you think a large area is a better way of doing it, or do you think it is better going for a very micro-based system, based on areas of high definition?

Steve Thomas: I have had that conversation with the Secretary of State for Wales and we have had the conversation with the Department for Exiting the EU. The question is about the experience of structural funds over the last 20 years, and the experience of the first round of structural funds, which was the Objective 1 programme, and then, more latterly, the convergence and competitiveness progress. The question is economic impact, but also a more difficult thing to measure: impact on people.

I unfortunately went to a pub in Ebbw Vale at Christmastime and raised the word "Brexit" and mentioned the £400 million Head of the Valleys Road. A guy sat next to me turned to me and said, "That is all very well and good. It is lovely to have a new road with Mercedes and BMWs driving past me, but I don't have a job". That crystallises some of the issues. We have had a lot of infrastructure investment, but some of the softer investment that we need for apprenticeships, jobs and those types of things has not necessarily been forthcoming.

We have been involved in the European Social Fund and it has not been an enjoyable process; there is no point pretending. It is not fun for anybody who puts in an application for European social funding and goes through that bureaucracy; the monitoring is not fun. You get the money eventually but it is not a process that you can recommend as a Rolls-Royce process. But in broad terms, where we are in terms of the structural fund process in Wales is there has to be a programme that is a bit more of a hybrid. There have to be the big projects, but it also has to be something that is a small project. These are some of the smaller projects, the old Objective 1-style projects. This was a European project and £3 million of European money went into this building.

Those types of localised things are equally important, and I have some sympathy with where the Secretary of State is coming from, because I think he feels that some of the projects that came into Wales did not have the buy-in of the Welsh public, and some of the vote reflects that.

Professor Morgan: We should be strategic. What we need is strategic allocations of these funds, and if you do not have an industrial strategy, if you do not have an economic strategy, it is very difficult to prioritise and make sure that there is a strategic decision-making process that allocates these funds effectively. That is why I am talking about devolving it out of the Welsh Government, at least to the regional level within Wales of the city regions—three organisations with resources and knowledge of those local areas that you mentioned, who are far better able to tackle them—rather than the Welsh Government trying to go through some sort of litany of deprivation indices and say, "We will give a bit of money there and we will give a bit of money there. Oh, that is in a constituency that is marginal; we'd better give a bit more to that". We do not want that. We



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want to move away. What we need to do in Wales is take politics out of economic development.

Q1270 Jonathan Edwards: A point well made. Can we move to another issue, the European Investment Bank? How important is that? Perhaps this is a good one for Professor Davies following the Swansea Bay campus.

Professor Davies: Can I say, before answering you directly on that, that one of the reasons why the structural funds were structured as they were was because of the monitoring requirements of the European Union? It had to be large funds because they simply did not have the capacity. There is an opportunity in local application, because the ability to monitor our own use of the funds is going to be much greater.

To answer you on the EIB, for us the European Investment Bank is absolutely critical for a number of reasons. First, the criteria of the European Investment Bank was such that they absolutely recognised the importance of innovation and driving up capacity in R and D. In that sense, their perspective was much greater than that of a commercial bank. Secondly, the terms of the length of the loans available, particularly the drawdown on the loans, make it a very efficient way of drawing funds. Thirdly, like any good bank, they are very keen to refresh facilities. As part of that, where they have invested in a facility, such as the one out of the Swansea University Bay campus, we were able to secure another loan of £660 million very recently. In other words, the money follows money and it follows the kind of investment in developing the economic superstructure and innovation capacity of the region, which we are very proud of.

Clearly, the implications of Brexit for the EIB is something that needs profound consideration, not least because it goes to the concept of collaboration within Europe. It would be very sad if Brexit meant failure to collaborate and to share risks, because that has nothing to do with the politics and everything to do with investment and also leveraging advantage, where that can be demonstrated to be the case.

Q1271 Jonathan Edwards: Can I move then to the very worrying announcement we have had in the last few days about Ford in Bridgend? Obviously you are far closer to the coalface than I am, in terms of what has been going on there. To what degree do you think that is Brexit-related—or is it not at all?

Professor Morgan: I cannot see how it can be that closely related to Brexit. There has been a lot of investment in that plant over the years, but we know that it has produced engines for a number of other producers, not just Ford. It produces engines for Volvo, other European manufacturers and Jaguar. We know that a lot of these companies now are deciding to produce their own engines, so Volvo has ceased using the plant and Jaguar is going to cease using it in a year's time. These are things that are evolving within the car industry. I do not think that is related to Brexit.



The current state of the Ford plant cannot be a Brexit issue, but the point is: how do we invest to make sure that our component manufacturers in this country are far more effective, efficient, competitive and able to source these things? That is the big issue, but I do not think it is directly related to Brexit.

Steve Thomas: Anybody who listened to Andy Richards from Unite's interview yesterday on Radio Wales would see that his frustration stems back a couple of years, probably predating the Brexit referendum, and because of that, there has been an ongoing discussion on the future of the plant. I spoke yesterday to the leader of Bridgend, and he is deeply concerned about the impact in the area, but what we do not want to do is talk to worse-case scenarios. There is a lot of time to pass between now and 2020 to make sure that the plant has sufficient orders to keep it a sustainable and valuable proposition, now and into the future.

Q1272 **Jonathan Edwards:** Next week the Chancellor will be making his Budget statement, and I think it is going to be dominated by Brexit, because essentially he will be triggering Article 50 a few days, maybe a week, afterwards, and there is a two-year countdown. Using all your expertise, and as we approach the Budget, what is the economic package Wales needs to deal with a post-Brexit environment? I am not going to say what it is, because I do not want to be shot down in front of my colleagues by you as experts. If you were the Chancellor, or even the Economic Minister in Wales, what would be the package you were looking for to help Wales perhaps mitigate the impacts of Brexit?

Professor Morgan: I would say that the Chancellor has a great opportunity here to pinpoint what it is that is holding us back. One of the things that is holding us back, and has been for some time, is lack of capital investment by industry. There is not a shortage of funds out there. The businesses themselves have about £700 billion, £800 billion sitting on their balance sheets. There is not a shortage of funds. Why are they not investing? What incentives can you put in place to encourage that investment? I would have thought the first thing he should be doing in his Budget is introducing 100% capital allowances, so that by the time we exit the EU in 2020, whatever you spend on capital equipment, you can offset against tax; 100% capital allowances for investment undertaken between now and 2020, when it is now we need it, not down in the future. That is the first thing I would say they need to do.

Secondly, is to put enough funding in place to support this so-called industrial strategy. We have not seen anything meaty in it yet, but if it does have a regional element, then that regional support funding would improve our supply base across a number of manufacturing sectors. That has to be top of the list—and making sure that the infrastructure is there as well. Iwan made the good point about the EIB. We could create our own EIB, because we have a business bank and an infrastructure bank, and all that we need to do is make sure we have patient capital and patient investment in place to support long-term investments. The



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pension funds could be encouraged to put their long-term funding into those banks. I do not want to lose the EIB, but we could be creating that type of long-term investment bank ourselves. It is not impossible.

Professor Davies: The Chancellor has already recognised the malaise in productivity and the productivity gap. The productivity gap in the UK and other nations in Europe and elsewhere is very significant. He made the point in the autumn statement that a 1% rise in productivity over 10 years would have a massive effect on wealth in the UK, but the productivity gap in the UK is troublesome. The one in Wales and the one in south-west Wales is even more troublesome. For me, looking at it from a regional perspective as well as more generally, it is investing in skills and people. There are two ways in which you drive up productivity: basically people and technology. Schools, further education colleges and higher education institutions have a very significant part to play in driving up the economy of the region.

Steve Thomas: In pure economic terms, aside from the fact that he needs to put some money into social care as a matter of urgency, he should continue to support the city deals, and make sure that the message on devolution to local government is a bit clearer. It feels a bit ambiguous, particularly in terms of some of our English colleagues. In terms of city deals, Brian is absolutely right: what we want to see is real significant sub-regional funding. If you look at the north Wales growth bid, the Swansea-based city deal and what is happening in Cardiff, there are some exciting projects in those, and we want to see those continue to be funded. We also want to see some change in the apprenticeship and skills agenda. A good point to start would be to abolish Jobcentre Plus.

Jonathan Edwards: To finish, on Tuesday, I did ask him specifically about the Swansea Bay city deal, and he did say he expected to make an announcement within eight days, so perhaps next Wednesday.

Steve Thomas: Excellent, good.

Q1273 **Chair:** Just a final question from me. Professor Morgan, you referred to investment. Have any of you seen any indication that businesses already operating in Wales are deferring or putting off investment because of Brexit, or any inquiries from firms that were thinking of coming to Wales putting that on hold because of the uncertainty that it currently faces? It comes back to my original question about the uncertainty of our future trading relationships if those are would-be businesses that were interested in exporting to the other 27 member states.

Professor Morgan: I have not seen any direct evidence of people postponing their investments. In fact, a lot of investments are waiting for the go-ahead in Wales, and we would like to see some of those investments given the go-ahead. I have not seen any of that evidence, but I know at the macro level there is evidence, in CBI surveys and that sort of thing, that investment intentions have gone down, and people are becoming more uncertain. The sooner the uncertainty is lifted, the better.



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Professor Davies: At a more micro level, as part of my responsibilities going overseas, international students ask forever the question about opportunities and the impact that Brexit would have on their opportunities in the UK. If I can just finish off with one story, I spoke to a Chinese student who did his initial degree and his MSc in Swansea on an Erasmus programme with the University of Stuttgart. He learned English, or he perfected his English, in Swansea. He learned German in Stuttgart as part of an Erasmus MSc programme, and he is now leading the Tiguan factory in Beijing, speaking in German with an engineering degree and postgraduate degree from Swansea. That would not be possible if we do not secure Erasmus continuation.

Chair: That is a very good point on which to end. On behalf of the members of the Committee, thank you, Professor Morgan, Mr Thomas and Professor Davies, for your evidence and expertise today, which has been of great assistance. Thank you for coming.