



European Union Committee

Corrected oral evidence: Brexit: Devolution Inquiry

Tuesday 7 February 2017

3.30 pm

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Members present: Lord Boswell of Aynho (The Chairman); Baroness Armstrong of Hill Top; Lord Jay of Ewelme; Earl of Kinnoull; Lord Selkirk of Douglas; Lord Whitty.

Evidence Session No. 9

Heard in Public

Questions 83 - 91

Witnesses

[I](#): Nicholas Fenwick, Head of Policy, Farmers' Union of Wales; Ben Cottam, Head of External Affairs, FSB Wales; Dr Victoria Winckler, Director, the Bevan Foundation; Mary Williams, Community Co-ordinator, Unite Wales.

Examination of witnesses

Nicholas Fenwick, Ben Cottam, Dr Victoria Winckler and Mary Williams.

- Q83 **The Chairman:** Good afternoon. May I welcome you to the National Assembly for Wales? We are very grateful for its hospitality, which I have not recorded on the record and will now do, because it is always very generous and very friendly, which is the most important thing.

This Lords EU Select Committee, as an important part of its inquiry into the implications of Brexit, is looking at the implications for all parts of the United Kingdom, and indeed slightly further to what the Minister called the British family, such as the Crown Dependencies, and others that may be affected. It is particularly valuable for us to get a handle from people who are close to their communities and to their businesses. At all times, we need to remember that while this has a diplomatic and geopolitical element, which can be exciting if you like that sort of thing, the fact is that it will affect a lot of people intimately, possibly in ways that they do not fully understand and are not qualified to comment on. It is difficult enough for some of us. To get a handle on how you feel about it, where the real problems are and whether your own voices and those of the people you represent are being represented is really important for us.

It would be simplest to kick things off if I just get you to introduce yourselves for the record, from my left to right, and then we will get on with the questions. This is a public evidence session and we will of course send you a transcript. I should also say that we are very much open to having a continuing dialogue with those who have something to tell us as and when things develop. We would like that. Ben, would you like to start?

Ben Cottam: Good afternoon, all. My name is Ben Cottam. I am head of external affairs for the Federation of Small Businesses in Wales.

Mary Williams: My name is Mary Williams. I am from Unite and I am the acting political officer.

Dr Victoria Winckler: Hello. I am Victoria Winckler. I am director of the Bevan Foundation, which is an independent charitable think tank.

Nicholas Fenwick: I am Nick Fenwick. I am Head of Policy for the Farmers' Union of Wales.

- Q84 **The Chairman:** We have some scripted questions, but we will allow this to flow as freely as we can so that people can express their opinions. Similarly across the piece, if you need to say something or you need to leave something for someone else to say, please feel you can. This question is probably for you all and we will use the same batting order, just because it is convenient for me to see that.

It is to open with asking you what your reaction was to the Prime Minister's speech last month, setting out the UK Government's approach to Brexit, obviously supplemented by the subsequent White Paper that the Government have now produced. What have you seen of the debates

on Article 50 and the Welsh Government's own paper? What do you individually feel are the political, economic and legal implications for Wales of the Brexit model the UK Government are pursuing? Ben, would you like to start?

Ben Cottam: Yes. On the question of our reaction to the Prime Minister's statement at Lancaster House, we as an organisation were looking for an indication of what we would say is a business-friendly Brexit. We were looking for a bold statement, and I think the Prime Minister made a bold statement. The focus for us as an organisation and for our membership is on what I would call the three T's simplification: trade, talent and transitional arrangements. Not necessarily in response to that, but we are administering quite a substantial consultation with our membership across the UK to try to get an idea of the imperatives for small businesses around Brexit. We are identifying themes very much around the necessities of trade, the necessities of access to talent and skills to make businesses successful.

Also, in relation to the transitional arrangements, stability within that will allow businesses to navigate effectively what will be quite a changeable landscape. There will be an ongoing conversation in relation to the response of the devolved Governments to that. It is helpful that the Welsh Government issued their White Paper. We are in the process of engaging our members on their thoughts on that. That process has not completed yet, but it is helpful that there is a contribution from the devolved Governments. Imperative to us will be some visibility as to how that is considered as part of the mix across the four nations.

Mary Williams: For Unite, Brexit is about jobs, investment and workers' rights. One of the key priorities for us was tariff-free access to the single market, so we were disappointed that that was not stated. Our members work across many sectors, such as automotive, aerospace, and steel and metal products. If we look at automotive as an example, we have the Ford plant in Bridgend in South Wales. There are about 1,800 members working there, a world-class workforce, and they produce engines at that plant. One of those engines is the Sigma engine. When that is completed there, it goes to Cologne for assembly as part of the Ford Fiesta. The Ford Fiesta is the number one selling car in the UK. In 2016, it sold over 120,000 units. Tariffs going out to Cologne and then tariffs coming back in cost, and we would be worried that that could put jobs at risk.

Airbus in north Wales has a workforce of 6,000 who create wings for the biggest airliner in the world, the A380. Again, when that goes for assembly it goes to many parts of the EU. Tariffs are a very real threat for them. Tom Williams, the chief operating officer there, said that we were entering a dangerous period when they cannot move products and people around freely. For us, an imperative is tariff-free access to the single market.

Dr Victoria Winckler: I share the concerns about the impact of the Prime Minister's statement on the economy in Wales. Even businesses that may think they are not affected because they do not export to the

EU may well be part of a supply chain that ultimately relies on exports to other European Union countries, or they may well be a beneficiary of the multiplier effect from those businesses. We would have real concerns about leaving the single market and the customs union.

There are two other concerns. There was a lack of a positive statement about community relationships. Community cohesion has been damaged by the way in which the debate about leaving the EU has been conducted, and it would have been nice to have seen some reassurances for EU citizens living in Wales and, vice versa, people from Wales living elsewhere, but we did not see that. There are also some real threats, which I am sure you will come on to. I am very uneasy about the implications for the UK and us as a union.

Nicholas Fenwick: I would echo many of those concerns, particularly with regard to these complex supply chains, which came to light more than ever during the horsemeat scandal, sadly. You are all aware of the degree to which it became apparent then that commodities are moved around. That is the sort of complex supply chain that we are now looking at potentially severing in many different places. We have no idea of the consequences yet.

On the political and legal implications for Wales, which is the heart of your question, agriculture is probably the most devolved policy area dealt with by the Welsh Government. Almost all of it devolved, so the repercussions for us are potentially significant. There are very big constitutional questions. As you will be aware, we currently have a framework dictated, decided or agreed—depending on how you see it—at an EU level and then implemented through devolved Administrations within the UK. There are some very some big questions as to where the balance of powers should lie. Our belief as a union is that they are somewhere close to where they should be. We may not agree with all the actual bits and bobs of legislation but, in terms of the balance of power, we believe it has benefited us, because this Assembly here is best placed to make judgments and understand agriculture in Wales.

The Chairman: Thank you for those introductory statements. They provide me with a neat opportunity to declare an interest as somebody who still has farming interests, which are in the register. Perhaps more to your point, I used to buy some of my sheep in Wales, in the past, and I am well aware of the kind of issue that is engaged. We also listened to what you had to say about supply chains. They of course also apply in agriculture. I find in my own farming that the linseed tends to go off to Belgium or somewhere without you really knowing because it goes through a merchant. When I was a constituency MP, I used to have a very big plant, which was Ford's spare parts depot. You are aware of the kind of cross-border implications that there inevitably are in a modern structure.

That is probably all I would try to say during this, because we will need to keep the session fairly tight, as we have just under an hour to go now. We have such interesting backgrounds and evidence coming that we want

to concentrate on that, so can I ask Lord Selkirk to open the line of questions, please?

Q85 Lord Selkirk of Douglas: May I ask about the Prime Minister's statement when she said that she is committed to "working with the Administrations in Scotland, Wales and Northern Ireland to deliver a Brexit that works for the whole of the United Kingdom"? Is it possible to respect the referendum result while at the same time taking into account the divergent views across the United Kingdom between the Government and Executives in London, Cardiff, Edinburgh and Belfast? Does the fact that a majority of Welsh voters were in favour of leave place Wales in a different situation compared with Scotland and Northern Ireland?

Nicholas Fenwick: As far as I am aware, all Administrations have acknowledged the validity of the referendum outcome, but that referendum was about leaving the European Union, not about related issues such as the Common Market. There are clearly difficulties there. I would guess that the difficulty in dealing with the Scottish Administration is more political and has always been there, but there are certainly difficulties. It is absolutely imperative that the communication links are good and that people respect the balance of powers that have been divvied out due to devolution.

Dr Victoria Winckler: I would echo that. It is very clear that this is a UK referendum result. That said, the tensions that lie underneath and behind that perhaps simple statement are very difficult and very deep. Wales is in a different and difficult position in that it has very limited leverage over the UK Government. It is not in the same position as Scotland; it is in a different position economically. It will be very difficult for Welsh representatives to make their voices heard, particularly if decisions are not in its interests. I think it will be very difficult.

Mary Williams: The turnout for the referendum here in Wales was just under 72%, which is a huge turnout, and it was 53% to leave. In Unite we accept that our members will have voted to remain and to leave. It is now all about going forward and getting the best deal that we can. The First Minister has said that people in Wales voted to leave the EU; they did not vote to ruin the economy. It is important that all the views are taken from the devolved Administrations when those negotiations start. When those views are taken, as long as those negotiations are unified when we start we will be in a much stronger position.

Ben Cottam: There has to be some confidence in the consideration of the divergent views in the countries of the UK. That does not detract from the fact that the UK Government are the negotiating entity in this issue. As an organisation we work closely with the Welsh Government and the National Assembly for Wales to influence, interact and engage with them on behalf of businesses and their perspectives on this issue, and we want to have confidence in the process and how that is taken forward. For us, it is fundamentally about the confidence that my members and the business community have in that process. This has certainly created visibility for the Joint Ministerial Committee, and there is a key role for it

as an entity that brings together the different political and governmental interests across the UK. There is an opportunity to use that as a vehicle to create the certainty for stakeholders that these conversations are being had, but we are well aware that those divergent views should be considered.

Mary Williams: I just wanted to say that we have also set up a Brexit advisory group, which is made up of individuals from across a wide sector of work and experiences. It is really important that those voices are also heard; for instance, there is somebody from the Wales TUC on that advisory group. That feeds into the views of what the Welsh Government should take forward.

Lord Selkirk of Douglas: May I ask a quick supplementary? We are seven months on from the referendum result. What is the attitude of Welsh public opinion towards Brexit and the implications for Wales?

Ben Cottam: I do not see it as my role to interpret Welsh public opinion. There are far better qualified people to do that than me. What I can say is that, as a membership of 10,000 members in Wales, pre-referendum we knew that our membership was as split as the country was. The pre-referendum polling we had showed that 48% of our members supported the remain camp and 38% of our members supported leave. Now, there has been a variance subsequent to that. I should have prefaced this by saying that the FSB is entirely neutral on the substantive issue of Brexit and sees our role to influence the process and engage in the process. We have to recognise that the small business community will be equally as split and as confused as the population at large.

What I would say, though, is that we are picking up from the ground that business has generally just cracked on with it. They see it as a necessity to get by, day by day. In the absence of any certainty as to what the landscape is going to throw at them, we know that members have taken the opportunity to just get on with their day-to-day business. That has reflected pretty well on them. That is notwithstanding the fact that there is uncertainty in the landscape for them. We would not have a detailed analysis as to how the business community is feeling on that as a whole, other than that it continues to be as confused, maybe, or as motivated as the rest of the population.

Dr Victoria Winckler: Cardiff University has done a series of polls that show that in fact public opinion was and still is deeply divided. There was a little flurry of results immediately after the referendum that suggested that some people had changed their mind, but we can discount those for the most part. Recent polling shows, for what those poll results are worth, that nobody has changed their mind, and if anything that attitudes have hardened a little. That is actually quite worrying for where we go as a society, but I do not think we can really talk about a coherent or cohesive public opinion in Wales or indeed elsewhere.

Nicholas Fenwick: I think it is fair to say that the views of the agricultural community will broadly reflect the ways in which they voted.

There will be some who used their votes as protest votes or voted for some sort of utopia, which they now understand is not possible. Others remain hardened in their views, and there may well be some who voted to remain who may now regret that and wish that they had voted to leave. I think there is growing concern about what light there is at the end of the tunnel and the pace of change, given that some people, I know, perceived that we would leave the European Union the day after the referendum. The rest of us knew that that was not going to happen, but people are starting to understand that the rate of change and that timescale, given the trade deals, et cetera, that we have to try to negotiate, is very, very difficult. There is growing recognition, as has been admitted, of the need to transpose current systems into a post-Brexit world simply to play for time.

Mary Williams: As I said earlier, Unite members will have voted to leave and to remain. I have also seen some of the polling, which shows that public opinion has not changed that much since the referendum. Again, there is so much uncertainty at the moment about what it means and what will happen over the next couple of years for our members. That is what we are getting from the ground.

The Chairman: If you wanted to coin a phrase, and I am not here to do that, it would be to say that, if you are certain about it you are not really well informed. This is the problem that we all have. It would help us if you could lead us through each of your various interests a bit: your industrial, community or trade union interests. What are you seeing as the main areas of concern now? You are speaking for yourselves in a sense but also on behalf of your membership. What might you be inputting to the JMC, for example? Where are the main areas of concern that you have? Who wants to lead on that?

Mary Williams: For us, it is workers' rights, especially those that were underpinned by EU legislation. In the document that the Government produced a couple of days ago with regard to the great repeal Bill, a line in it said that once we have left the EU, Parliament and where appropriate the devolved legislatures will then be able to decide which elements of that law to keep, amend or repeal. That is something that we would like to see: the enforcement of the workers' rights that we enjoy continue after we leave the EU.

The other thing for Unite is the investment that we have from the EU with regard to different areas around Wales. Ebbw Vale, for instance, which is in the constituency of Blaenau Gwent, used to be the site of the biggest steelworks in Europe. That closed, but because of EU funding they have had £350 million for regeneration. Some £33.5 million went towards Coleg Gwent, which contributed to 29,000 Welsh apprenticeships, so that young people could get a trade, and £111 million for railway lines, roads and other infrastructure projects. That is an incredible investment that creates, protects and secures jobs. Again, we would like to see what will happen after we leave the EU with regards to that kind of investment and funding.

Ben Cottam: As part of its investigation, the FSB is exploring four main themes as part of our work: the regulatory landscape, skills, trade and, finally, EU funding. That is where we are focusing our efforts, and that speaks to a narrative of seeking stability and seeking to inform a conversation that speaks to stability. Instability and uncertainty are the real enemy for businesses of all size in this conversation. Trying to understand the imperatives of businesses to inform the conversation and therefore what the outcome should be for the UK Government is really important for us.

As regards Mary's comment, particularly about EU funding, FSB Wales has been clear that it shares to some extent the First Minister's concern about the long-term stability of the funding that otherwise would have been made available to Wales post-2020. That is notwithstanding the fact that some of the polling of our membership to date, which will come out in some of the EU funding work that we do, accepts that there is some uncertainty and a lack of clarity as to the value of that spend. Whereas we can see that analysis could be done there, we would not want to see an overall reduction of money that would otherwise be available to Wales, realising that much of that has been leveraging towards areas that are fundamental to our membership: infrastructure, skills and business support for instance.

An imperative for us is to ensure stability in the landscape and some certainty where that is practicable, in what is a very uncertain process, which allows businesses to plan, at least in the medium term if not the long term, to ensure that there are not detrimental impacts on their businesses.

Dr Victoria Winckler: Our concerns are slightly different. We are interested in actions that achieve social justice in Wales and reduce inequality and poverty. In the immediate aftermath of the referendum, we published a paper that identified three key areas of concern. The first was jobs and social protection. We would be very concerned not to see a race to the bottom, with the significant gains that have been made in the world of work and other areas of social protection watered down. We are also concerned about environmental protection, because pollution and carbon know no boundaries. Again, we do not want to see a race to the bottom in repealing lots of related EU protections, although there are probably ways in which we could get environmental laws and policies that are a better fit with Wales's circumstances. The question of community relationships is key. We have seen a lot of bad feeling and breakdown of good will between different groups in the population, and we would not want to see that exacerbated further.

The Chairman: If I might just pick up that point specifically, we did not ask you about migration, but I noticed that some of the concerns on the employers' side, if they have not moved, about access to labour, particularly but not exclusively in the private sector—they are also in the public sector—have rather come to the fore. What is your sense of the terms of trade there? How are people received in the workforce? How

does the wider community reflect this? There was a high-profile incident in Essex immediately after the referendum, but have people settled down to a more mature discussion—or is it still very raw?

Dr Victoria Winckler: We are next-door neighbours with a small community project that provides advice and support to EU migrants in the town where we are based: Merthyr Tydfil. They report continuing low-level harassment and ill will towards members of that community, with some numbers among them now choosing to return back to their country of origin. While that low-level harassment might not be enough to merit a report to police, it does contribute to a much poorer environment and a breakdown of relationships compared with what existed before. That is a real concern.

Mary Williams: There are 79,000 EU nationals living in Wales, of which I am one. There have been issues in Wales with regard to how people have been treated and feel. As Unite, we work with other community organisations to drop those barriers and bring people together. With regard to work, we see a need for people to come and work in the NHS, for instance, from within the EU and outside. We are going to have to look hard over the next coming years at migration and how that will work, because people need to be treated fairly and equally when they come here to work.

Nicholas Fenwick: For us, there is an overarching risk and concern that sectors that are least well off are the most vulnerable to the different outcomes or many of the post-Brexit scenarios that we hear discussed quite openly. Given that 80% of Wales is a less-favoured area, it is not surprising that those sectors, particularly the livestock sectors, are predominant in Wales, as you will be aware. Therefore, the risks for Welsh farmers in general are far greater than they are for English farmers as a whole.

The Chairman: They are more export-dependent.

Nicholas Fenwick: They are more export-dependent, particularly for lamb, with 30% or thereabouts of our lamb going to the continent. Clearly there are huge risks there; they are the most vulnerable. Within that, obviously trade is the big issue. There are some sectors that have less presence in Wales, for which there are potential benefits because of the trade balance, but that depends on the prices and on trade agreements with other countries. There are big concerns about the standards applied in those countries and the additional competition that would be introduced, even in basic terms such as the fact that we have minimum wages and countries such as Brazil do not, as well as animal welfare standards, traceability and all the other things.

Not surprisingly, because so many of our farmers are very vulnerable, they are extremely reliant on support, sadly. That may not be a surprise, given that we have 60 or 70 years of a system aimed specifically at securing cheap food and plenty of it for our population. It is no surprise that the income they receive from the marketplace is very low.

Unfortunately, about 80% of Welsh farm income comes from support, so there is clearly a concern about that. Part and parcel of that is how it is dealt with through devolution. It clearly cannot fall within the Barnett formula; that would be extremely disadvantageous to us.

- Q86 **The Chairman:** Can I just unpack one part of that question, which is the trade side? As I hear you, there are concerns both about the export of Welsh lamb to the European mainland when we are no longer members of the European Union, which is about access to the market, and about the parallel issue of the potential for trade deals bringing in lamb on very favourable tariff-free terms. In particular, but not for every country, there will be some concerns about the standard of production. Do you have a quantitative feel as to which of those troubles your more, or are they both equally important?

Nicholas Fenwick: It depends on the production in any country that we are competing against and the way in which exchange rates change the nature of markets, because imports and exports will change. I would emphasise that this is a very complex issue, particularly for lamb, which comes back to this issue of complex supply chains. For instance, we have a peak of production because of our seasons, so we export when we have plenty and we import when we do not have plenty.

On top of that, we have an appetite in the UK for certain cuts of lamb, and we balance the value of carcasses by exporting other parts of the animal to places that like those other cuts, so it balances the value of an animal. The animal is not made of one uniform commodity; it is made of different things that different cultures like. Therefore, you have peaks of supply.

The closest that we have ever been to this, and we may be the only industry that has ever been outside the Common Market in recent years, was during foot and mouth disease in 2001 and in 2007, when we saw huge over-supply at a bad time of the year, particularly in 2007. That led to a collapse in prices. You will be aware of the problems faced in 2001. That is the worst; that is the Doomsday scenario. If that were to last, it would be of huge impact.

- Q87 **The Chairman:** I have one other question, and then I will bring in Baroness Armstrong on these tariff-related issues. A number of you raised the issue of EU funding and social programmes. Do you think there is any hope of continuing that funding after we have left?

Ben Cottam: I would not like to comment. It is clearly an issue for the UK Government to decide. In the referendum, those who were arguing the case for exiting the European Union were quite clear that Wales would not lose out as a result. It is reasonable, certainly from the perspective of the business community, that the support that otherwise would have been available to them meets the needs of the business community in Wales. It is clearly up to the UK Government to decide the level and nature of that support. I would not want to suggest that I could

gaze into a crystal ball and let you know what the UK Government are thinking on that particular point now.

Dr Victoria Winckler: What is important is that the prospect of EU funding for a country after it has left the EU is vanishingly small. That raises a very important question to the UK Government about what they are going to do in respect of regional disparities. To some extent, UK regional policy has gone upwards to Brussels and has been left to the structural and investment funds. In the absence of those, there is now an onus on the UK Government to recognise that the declining industrial areas from the 1970s and 1980s are still declining industrial areas, and it needs to address those. The City's policy is not the same.

Mary Williams: It is a basic thing to say, but I do not think that when people voted to leave they thought they would be worse off. That is the key here. The funding that comes from the EU is on a needs basis, so it goes to the areas that need it. Again, there are going to have to be real talks about what happens afterwards with regard to funding that would have come to Wales if it had stayed in the EU.

Nicholas Fenwick: From an agricultural perspective, there is a very simple view that you can just take the money away and let everything continue. In Wales, it would deteriorate significantly. People need to take stock of where we are currently, the supply chains, the upstream supply chains that go to farm businesses and the degree to which rural businesses in particular rely on agriculture, and calculate the potential impact of withdrawing that money.

When you look at the multiplier effects in place from our Welsh farm business survey, for example, you can see that the money that is given to farmers may be in a way that is not ideal. We would agree with that. Nevertheless, that money maintains businesses above a threshold below which they would not be able to operate. In return, those businesses spend over £1 billion in their wider communities on contractors, local veterinarians, et cetera. Therefore, people need to see this in terms of the complexity of these different supply chains, rather than just a simple black and white equation. We are looking at complete rural collapse if funding is not maintained, including structural funds as well.

The Chairman: That could even lead to depopulation, for example.

Nicholas Fenwick: Yes, absolutely.

The Chairman: Thinking aloud, there is also an implication to the cultural side of this, given the strength of the Welsh language in many of those rural areas.

Nicholas Fenwick: It is worth bearing in mind that more than 60% of Celtic language speakers in the world live in Wales, despite Wales having a very, very small population. It is tiny compared to Brittany and Scotland and relatively small compared to Ireland, yet we have 60% of the Celtic language-speaking population of the world, so it is incredibly

important culturally. In large areas of Wales, it is the one industry within which Welsh is used almost at 100%, while the language has been lost in other industries.

Q88 Baroness Armstrong of Hill Top: At one level, I would love to pursue the regional differences. I come from the north east of England and what you describe, both in agriculture and in the industrial part, is exactly what we have, but we do not have devolved government of course. There we are.

What I really wanted to talk about were non-tariff barriers in trade. I am thinking of regulation; I am thinking of standards. You have talked about that a little, but do you have anything further to say about the impact of non-tariff barriers? On the one hand, people want to reduce regulation. On the other hand, having comparable and compatible regulatory standards with the countries of the European Union will be essential in order to trade with them. What sort of work are you doing, and where is your thinking on this sort of activity? We can all say that we are against tariffs and against regulation, but in terms of standards and trade, we need compatibility.

Ben Cottam: We are in the process of trying to get exactly that analysis, and I cannot deliver a definitive answer. What I would say is that we have to recognise that whereas the focus might be on tariffs or non-tariff barriers, particularly for the smallest businesses it can be really quite difficult to get their heads around that and to comply. The focus on regulation is as much about the ease of compliance as it is about the nature of the compliance or otherwise itself. It is the ease with which particularly small businesses are able to comply and remain competitive.

You have mentioned the regional conversation here. There is an opportunity to use this debate to better understand the nature of the UK internal single market. We have not needed and have never had the impetus to understand that, realising that for businesses here in Wales export at the first stage might well be export across the border into England and to other areas of the UK. Given the uncertainty of the time we have ahead, if we focus our efforts on helping businesses to exploit the UK single market, it might be a real opportunity.

What I would say, which is hinted at in our document, is that we have to accept that there is a conversation coming down the track post Brexit about regulatory divergence within the UK. As I say, I do not have a definitive analysis of that, but we are looking at that specifically as an organisation now. There will be those who see that as an opportunity and those who see that as a concern, but it is one of these things that we have to start to consider now, because considering it immediately post Brexit would be negligent.

Baroness Armstrong of Hill Top: One of the problems with that is what Mary mentioned specifically, which is that that is a big issue for supply chains. A lot of small businesses are part of supply chains across Europe.

Ben Cottam: Understanding where that supply chain impact is will be fundamental.

The Chairman: The sooner the work hits the public attention, the better. Are there other comments on those questions?

Mary Williams: For big businesses in Wales that have plans to cross the EU, it is easier for them to have common regulations for the products that they are creating. Another aspect, because of the ease of where things can move across to different plants, is that there are no checks and time delays. A lot of our workers are based in factories that have a 24-hour turnover. That is how they work and keep down costs. If you were in a situation where you now had to check whether something is going across the border, that will delay things and have an impact on that business.

As I said, we have a lot of big businesses that are link businesses across several places. I mentioned Airbus earlier and the creation of wings for aeroplanes. They will go from north Wales to Spain and back to France for final assembly. Again, common regulations are key and not checks.

Baroness Armstrong of Hill Top: There is a company in my old constituency that makes the struts for the wings in Consett.

Nicholas Fenwick: I would say that many of our members who voted to leave the EU voted purely on the basis of regulation. I would argue that a lot of that is to do with our own interpretation of the legislation. We also have to distinguish between EU regulations and equivalence. Everyone who imports into the European Union has to abide by equivalence rules. They do not have the same rules, but they do have equivalence rules. There is hopefully a great deal of room for us to manoeuvre there to make things easier, more appropriate and more proportionate, while maintaining the standards required of whatever country it is that we want to export into or whatever trading bloc we want to export into. To those who think that America is going to be easy, I know it is going to be a lot more difficult. They have very different standards. We have to be realistic. We need a reality check as to how easy it is going to be to access some of these new markets.

Q89 **Lord Jay of Ewelme:** You have painted a pretty vivid picture about the implications of all of this for industry and for agriculture. I am not so concerned about agriculture at the moment, but I rather agree with Mr Fenwick that it looks pretty grim, unless there is a chance of some funds of some kind from Westminster. I just wanted to pause for a moment on the manufacturing goods and supply chain question. What scope is there for reducing costs in order to remain competitive, either in small industry or in large industry? Is it really as bad as you have painted?

Ben Cottam: I hope I have not painted it too negatively. I would not want the interpretation to be doom and gloom. Equally, we have members who are seeing opportunities.

Lord Jay of Ewelme: There are also opportunities.

Ben Cottam: Yes, I think there are opportunities. In one conversation I had some time ago, someone was saying that we export at the moment. Our destination of export is EU countries, because that is what we have naturally been led to do because it is our nearest trading neighbour. This might actually prompt us to look in other export markets. It will by its nature prompt different thinking and different decision-making. The substantive issues and weaknesses will remain whatever, and that is productivity. We still have not solved the productivity issue within UK business and, despite Brexit, it remains one of the fundamental questions that we need to answer. From a small business perspective, it is as much about helping them understand what productivity looks like. That might be as simple as adoptions of technology and new processes to boost productivity. Those questions remain.

From our perspective, we know that there are members who are seeing some real opportunities in Brexit. That is notwithstanding those who are uncertain, if not gloomy, about the environment. The conversation at the moment has largely been political and constitutional. Businesses that have been waiting for some time to see a change in the landscape may well wait quite a long time yet. It is important that we engage the business community on the likely outcomes for them, particularly the smallest businesses.

Lord Jay of Ewelme: Thank you very much for that. Mary Williams, are there any opportunities, again looking at Ford engines, the wings of the A380 and so on, or is it all risk?

Mary Williams: At the moment, there is great uncertainty about everything. We cannot escape that; there really is. For those major industries that have a commitment in Wales, we just do not know what is going to happen. They have locations across the whole of the world, not just within the EU, and I guess they will be taking decisions about what happens in the future. Obviously we are still attracting new companies and organisations to Wales. There is a new Aston Martin plant opening up, which is great. It is fantastic but, again, it is just that that issue of uncertainty is around at the moment for everyone.

Dr Victoria Winckler: If we are sounding negative, it is because the risks are to what we know, whereas the opportunities are like a mist at the moment. We just do not know what they are. We know that there will be some, but we do not know where they are or what they are. What we can say is that we are heading for a period of incredible economic restructuring, in which some of the businesses that are part of the Welsh landscape will probably go. In the same way as coalmines and steel went, we could well see some of those staples disappear.

What concerns me is whether the Welsh Government, the UK Government, the business community and workers are fleet enough of foot to be able to adjust quickly and in a way that does not mean that people who are not in a strong position are seriously disadvantaged. I do

not think we can second-guess what the opportunities are. What we need is a framework that really means we are able to adapt quickly.

Nicholas Fenwick: I appreciate that you did not specifically ask about agriculture.

Lord Jay of Ewelme: We have heard some pretty gloomy stuff about lamb over much of today.

Nicholas Fenwick: It is obviously a very different industry. Nevertheless, all the concerns already expressed are absolutely reflected in the agricultural industry, bearing in mind that many of our manufacturers are supplying farmers. We have Ifor Williams Trailers in north Wales, which is an important plant and a regional employer. We have slaughterhouses, dairies, hauliers, et cetera. It is not as if agriculture is completely isolated; it is part of a very complex and important supply chain that provides tens and tens of thousands of people with work throughout Wales.

Lord Jay of Ewelme: The Ifor Williams vans and trailers are not going to disappear to France and Germany tomorrow.

Nicholas Fenwick: As I said earlier, there is a real need to slow things down. I know that it is politically naive, given the elections that are going to be held in different places, but very early after the referendum outcome we said that we accepted the outcome but that we would like to see things taken at an appropriate place. Unfortunately, that is not going to happen. We have so much to sort out that it would make sense to slow things down. Equally naive is the suggestion that we can somehow have everything tied up by May 2019.

The Chairman: At this point, I think we will move gear from what has been a very interesting industrial appraisal, if I may put it in general terms, to talk a bit about your interface with the political and constitutional system, and how all this is going to be represented.

Q90 **Lord Whitty:** I am going to ask you about where, post Brexit, the decision-making should really rest. While you are replying to that, could you also let us know if there is any part of the Welsh Government's paper with which you disagree or particularly wish to underline, if you could wrap that all up?

In terms of the balance of responsibility, let me take agriculture first. Agriculture is devolved within the UK, but the policy framework and the money are actually from Brussels. If it then becomes a UK Government responsibility, the UK Government will determine agriculture more than they do at the moment. Also, as you hinted earlier, it would change the whole way in which the Barnett formula operated for Wales, if that was lumped in. Would it be better in that context, and maybe also for the infrastructure grants that you have for other regional funds, if that were still decided at the UK level? If it is decided at the Welsh Government level, the Welsh Government have to fund the money, which may or may not be given to them under some new formula from Westminster.

Secondly, we will need a common market in agriculture across the four nations of the UK. Should we effectively have a shared responsibility for agriculture, as distinct from a devolved one? On the back of that, what would be the view of the interests that you all represent as to whether there should be more devolution of some responsibilities to the Welsh Assembly? In the opposite direction, in Scotland, we were pressed with the desire for employment legislation to be devolved, at least in part, and for consumer legislation to be devolved. Is there a similar demand within Wales? Nicholas can answer on the agriculture bit first.

Nicholas Fenwick: First, you are absolutely right: we will be operating within a common market. We will therefore need to have an overarching framework in order to ensure that there is no market distortion. Wales and Scotland, for example, are both competing primarily in an English market, because that is where the centres of population are, so we need a UK framework. As I said earlier, we believe the current balance of power to be somewhere close to where it is. If you look back, there are plenty of examples of where Wales may have got it wrong, but on the whole, looking back over the years, we would prefer it to have been in Wales, because those here have or are likely to have a better understanding of agriculture, especially given the nature of Wales. There is a long list of examples of where we believe policy decisions were better than they were in England because of that understanding. There is also a list of things where we would have loved to have been in England, but the grass is always greener. That is the first point.

Secondly, we need that budget, otherwise we will see huge regional collapse. There is a whole area of discussion as to how budgets are decided and agreed. Both in terms of a budget and in particular in terms of a framework, we need to have engagement between the different devolved regions and not a dictatorship. I am not going to comment on the White Paper, because I think it has some good merits to it. Those are the two critical things. We have an opportunity to create a new system, but that needs to be done in conjunction with other devolved Administrations, including Defra. There is a real danger that we will have free for all here, and then we will end up competing in a completely distorted marketplace.

Dr Victoria Winckler: The prospect of Brexit shows the inadequacies of the UK's constitutional settlement and the Barnett formula as a means of allocating funding. Take one party out of a tripartite system and the structure that is left is very wobbly. It is very difficult to decide where powers should or should not sit at the moment, because it is early days since the referendum result and things are still evolving. There should be some principles that underpin the approach. The kind of piecemeal approach that we have had in Wales to who has what powers and successive Wales Bills and Acts is actually very unhelpful. More than anything else, the change in funding will show just how inadequate the Barnett formula is. The Lords have said that in multiple reports and I think it is time to bite the bullet.

In terms of specific powers, there will be some areas where the jagged edges of the relationship will become too sharp. At the moment for example, if there are immigration controls, it should be for the Welsh Government to decide which are the shortage occupations. It should be for the Welsh Government to decide on admissions policies to HE, for example. I accept that that is difficult with an open border, but we can already see some areas where the current settlement may cause friction within the UK.

Mary Williams: This was really just to echo what was said earlier: there is no UK policy on agriculture. There is no UK policy on fisheries. It is devolved. Going forward, those issues will belong to the Welsh Government. We have not done enough work on this yet to give an opinion on where it goes after that, but we welcomed the White Paper, because a lot of the priorities that we have as Unite were listed in that White Paper, so we welcomed it.

Ben Cottam: We would not be able to give a view as to what powers and responsibilities should come to the National Assembly and the Welsh Government. The visibility of that process is important to allow businesses and the economy to adjust to that landscape. That is obviously very important, hence my suggestion that the JMC and the visibility of the JMC's work might to some extent be a vehicle to give visibility to that work.

There is a benefit in the settlement at the moment and the institution here in the proximity of decision-making for those areas of competence of the National Assembly and Welsh Government at the moment. That has been quite beneficial. I do not think there is a movement in the business community to see a repatriation, but there is a need for certainty of the landscape. Whether in the adoption of UK frameworks in agriculture or any other area, there is a need for certainty of the UK landscape that allows businesses to navigate that for what is the most important market, which is the domestic market.

The Chairman: Can we have the final question from Lord Kinnoull? I might suggest to our witnesses that when you respond to him you make any final comments of your own as you do.

Q91 **Earl of Kinnoull:** Thank you very much. I have to declare my farming interests. So that people do not walk away totally depressed, I can tell you that it is the same problem in Scotland, where I am. I can also tell you that the main Defra Minister in the House of Lords is a farmer himself, so he absolutely understands the issues, and there are others in the same boat. But that is not my question. My question relates to and builds on what Lord Whitty was saying. My concern, and a concern that we heard a bit in Scotland last week, is whether the Welsh Assembly and the structures here will be able to exercise their powers properly. Are they fit for purpose to operate the levers when a lot more power will be tipped in by the current Wales Bill, soon to be Act? I am absolutely certain that more powers will come down following Brexit. I am afraid that there is so little time that the answer has to be quite short.

The Chairman: We have a few minutes. Do not worry; we do not have a train to catch for a bit, but do not give us an hour each. Who would like to go first on that?

Nicholas Fenwick: Okay, I will. It is a concern, absolutely, and it is a concern in relation to committee scrutiny in particular. Notwithstanding that, there have been numerous success stories over the years. If there were an increase of powers post Brexit—I am not talking about the Wales Bill, but if Brexit were to devolve powers from wherever they came; from Brussels, I presume—it would be a concern. We particularly see pressures on the civil service at the moment on both sides of the border, bearing in mind that we also deal with the RPA. The cuts in staff have a direct impact on people, which we are seeing across all services. It is a concern that needs to be taken into account, but I would not discount it as possible. It should be borne in mind, which is another reason to take things slowly and carefully.

The Chairman: Is that your final comment? Would slowly and carefully help?

Nicholas Fenwick: If you want my final comment, I will say that one of the things that we have been asking various different bodies, including the Welsh Government, to do for 12 months in anticipation of a possible Brexit vote has been to do modelling work and data gathering. It is a slight obsession of ours. Nevertheless, we feel that it is absolutely crucial. When we have tried to work out how much lamb we export from Wales and those sorts of figures, there are peculiar accounting systems that depend on where the company is based, et cetera.

To a degree, some of that has been, “Well, we are in the EU. We are in the Common Market. It does not matter so much”. We absolutely need to gather as much data as we can so we can have informed decision-making. I know it is not popular to make informed decisions post Trump, but we absolutely need to do that nevertheless. There seem to be a lot of suggestions that are based on faith rather than on fact, and we need the facts otherwise it will be a leap of faith. We do not want it to be a leap off a cliff.

Dr Victoria Winckler: I would just repeat what I have said about there being huge economic change ahead. I am not convinced that we are as prepared as we could be in Wales for that future ahead and not only focusing on the threats but thinking about the opportunities. If I have one criticism of the Welsh Government and Plaid Cymru’s paper it is that it is quite light on opportunities and quite heavy on threats. As we are on the back foot, I do not think that there has been enough creative thinking or analysis about what kinds of powers Wales needs in order to for the Welsh Government to deliver a fair and prosperous post-Brexit future. There is a lot more to be done.

Mary Williams: With the potential extra powers, we are looking at the Assembly. It has 60 Members at the moment. Northern Ireland has 109 Members with a population of 1.8 million, which is just under half of what

Wales has. Scotland, with a population of 5.2 million, has 129 Members, which is double what we have. I know there is work going on at the moment about whether or not the number of Assembly Members should be increased. We should also take into consideration that we are looking at the parliamentary boundary reviews that are coming in. There is going to be a reduction in MPs from 40 to 29, so we are looking at elected representation. We realise that that is there on the horizon.

My final comment is really just to thank you for being here and allowing me to come in and talk about Unite's point of view and get that across, because it is really important that workers have a view and that their views are taken into account in these Committees and in these reports. It will be vital, so thank you.

Ben Cottam: On the question of the capacity of the institution to deal with that, as much as our members have a visibility in these things they would expect that where there is competency, regulation or legislation that affects them, there is the capacity for proper scrutiny. We as an organisation have a role in informing that scrutiny. On the question of the thinking in the future, we would hope and expect the Welsh Government and other parties to seek the views of the small business community. We were very disappointed that when the First Minister convened an advisory group on Brexit there was no voice of small businesses included in it. That is something that we would like to see resolved both with the UK Government and Welsh Government. We want the opportunity, as we gather the evidence, to prospect for those opportunities but also to sound the klaxon where we see some concerns. We would like the opportunity to air those points.

I would reiterate Nicholas's point about gathering the evidence base that will allow us to come to those conclusions and inform the view of both the Welsh Government and, critically, the UK Government as they take us through the negotiations. Similarly, I am very grateful for the opportunity to have this conversation, which is obviously fundamental to all my members.

The Chairman: In wrapping up, on our behalf can I thank you all for coming? There has been a strong emphasis on an evidence base. That is something that we are very much in the market for. On the whole, we do not reach conclusions unless we have had evidence. When it has been as high quality and compelling as it has been collectively this afternoon, it is very valuable to us.

Everybody knows that these are extraordinarily complex matters. They test business. They test political systems. They test Governments and they test individuals. We want the best possible outcome now we are embarked on that path. It has been very useful to talk to you, and please feel that it is a continuing relationship. As and when you have stuff to share with us, we would like to hear it. We will be monitoring closely to make sure that those who are meant to speak in your name—I do not mean yourselves, but those who are taking forward your case parliamentarily—are engaged on that and that your voice is heard as it

should be. Thank you.