

Policy brief

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The Impact of Brexit on Regional Businesses

All businesses in the UK will be affected by Brexit, but not all will be affected in the same ways, nor are they all equally able to influence the Government's negotiating position. This Policy Brief presents findings from discussions with regional business stakeholders in Wales and the South-West, which highlight obstacles to an effective regional lobbying strategy on Brexit. Large companies and manufacturers across the UK have been active in putting across their preferences for arrangements with Europe that replicate the status quo, advocating for permanent membership of a customs union and continued participation in the EU single market. Smaller firms, by contrast, are focusing on their day-to-day operations and are waiting for Government instructions on what to do.

The heterogeneity of businesses in Wales and the South-West makes presenting a particular set of demands for the region very challenging. Moreover, regional and local authorities are ill-equipped to represent the region's interests on trade matters and attempt to influence trade policy. Their work and expertise focuses on social and local infrastructures rather than trade policy. This Policy Brief suggests enhancing resources to develop trade policy expertise in regional authorities, and improved information channels for smaller business to assist in their preparations, as initial measures towards improving the region's capacity to influence Brexit outcomes and adapt to the changes it will bring about.

Research Findings in Context

Trade negotiations are often complex and time-consuming, but their **trade-offs** are very real. For Western economies, improving business opportunities abroad for their service sectors through trade agreements is often accompanied by allowing more imports of cars (e.g. EU-South Korea agreement) and other manufactured goods and agricultural products. Any agreement will, therefore, generate opportunities for some businesses and will increase competition and demand adjustment from others. It is, therefore, important for successful negotiations that the Government, and its team of trade negotiators, have a clear understanding of the trade-offs they will be willing to make in a trade negotiation, i.e. of the sectors they seek to benefit, and those that will inevitably be disadvantaged. Such clarity can also facilitate the enactment of domestic flanking measures to attenuate the negative impact of a trade agreement on the sectors that will lose out to market openness. Untangling the UK from the EU, and arriving at some clear plan for a future trade relationship is proving a monumental task, and is perhaps the most complicated negotiation, given the absence of national unity on the matter, or even a unified position with the ruling party and the Government itself.

The day-to-day impact of this lack of clarity on businesses in the South West of England and Wales, makes it especially challenging for firms to anticipate how they might be affected by Brexit and the future trading relationship with the EU, and to prepare, not least as preparations entail costs. It affects how businesses advise their clients and the operation of supply chains. In short, Brexit affects how businesses *do* business. Of course not all sectors, nor businesses, will be affected in the same ways nor are they all equally able to influence the Government's negotiating position.

Large Manufacturers

The aerospace industry, spearheaded by Airbus CEO, and car manufacturers have been openly critical of the lack of progress in Brexit negotiations. The former has warned about possible business relocation and the latter about the lack of preparedness. Alongside the Confederation of British Industry (CBI), they have advocated the need of arrangements that replicate existing market access, customs procedures and regulatory frameworks as much as possible (i.e. what is often referred to as a 'soft Brexit'), to account for modern 'just-in-time' manufacturing and delivery practices that would unravel if costly delays are introduced at the borders between the UK and EU. These *views were largely represented in the White Paper* on Brexit consolidating the cabinet's Chequer's proposals, which aimed at continuity for the manufacturing, food and other goods sectors. Although aspects of the proposal, such as the UK collecting EU tariffs or suggestions of regulatory divergence, have not been welcomed by EU negotiators, the Paper represented an important set towards clarifying the UK position on negotiations, and the sectors that would require more

adaptation (e.g. financial services which would lose existing automatic recognition to operate in the EU). Cabinet unity over this position was short-lived, with a raft of resignations following, including those of Brexit Secretary David Davis and Foreign Secretary Boris Johnson, who considered the proposals too 'soft'. These ongoing political battles regarding the future relationship with the EU, serve to further complicate the predicament of businesses in terms of preparing for future eventualities.

Smaller Firms' Struggle to Prepare

Whilst some of the larger firms (e.g. in financial, accountancy and legal services) are making preparations, for instance by naturalising key EU employees or registering in other EU states, smaller firms lack the resources for such endeavours. Even in the goods sector, where it is far easier to anticipate potential obstacles to trade (customs checks, paperwork, tariffs, etc.), smaller firms **struggle to even fully assess their exposure to the EU market**. Firms that sell their intermediary products to other firms within the UK do not consider themselves affected by potential changes. However, as their clients sell their finished products on to the EU, they, too, have an indirect exposure to Brexit that they are completely unaware of. Other smaller firms do not self-identify as exporters, even though they have customers in the Netherlands, for example, because membership of the EU single market has eliminated many of the procedures associated with exporting activities, and are eschewing preparations. In the absence of governmental guidance as to what the future will look like, smaller businesses, many of whom are often too **busy with their day-to-day activity, are waiting until they are told what the relationship with Europe will look like and what they will have to do**. Compounded by the fact that lacking precise information, many business owners' outlook on Brexit is intertwined with their own personal positions on EU membership, this makes a concerted regional voice on Brexit, especially one that reflects the needs of smaller businesses, practically impossible. Far from seeking to **influence policy, small businesses are operating in anticipated response to policy recommendations**.

Specificities of Agricultural Sector

A sector of particular concern in the South West and Wales is agriculture. Some farms are feeling the consequences of this uncertainty already even though, until now, nothing has changed. Farmers in parts of the South West failed to pick 20% of their produce from fields last year because the number of experienced fruit pickers from Eastern Europe had declined, whilst some importing firms had found that their European suppliers have stopped selling to them and sought alternative clients, as they fear a disorderly Brexit and sudden collapse of the trading relationship. The loss of the EU Common Agricultural

Policy (CAP) support and more restricted access to labour, has been highlighted as a particular problem by the Welsh Government given the characteristics of many Welsh farms (smaller farms devoted to animal rearing and more reliant on CAP), as well as access to veterinarians for abattoirs. As there is no specific training for these in the UK, the industry relies on Spanish, French and German professionals in this field. In some cases in the region, given the proximity to Ireland, animals are shipped to Ireland for slaughter and the carcasses transported back, something that requires quick and easy cross-border transport. At the policy level, understanding the differences in the Welsh agri-economy and the English agri-economy will be fundamental to ensuring a smooth transition on exiting the EU. For many farmers, the lack of certainty is itself having significant implications for the operation of their businesses.

Institutional Barriers to a Regional Lobbying Strategy

Beyond the challenges of crafting a single coordinated regional position on Brexit to lobby for, given the variety of businesses, business needs and also informational asymmetries, there are also institutional challenges preventing such a coordinated approach. **Access to government departments varies greatly from one department to another.** Business representatives commented positively on DEFRA's engagement and debates with business in the agricultural sector and their policy work, and with the devolved administrations, and contrasted it with other Departments that have been saying very little about future regulatory environments in the UK, and engaging with particular large businesses, under the terms of confidentiality agreements. Within the UK, **regional and local authorities have a traditional focus on local issues, rather than trade policy**, and even new ones such as the West of England Council Authority (WECA) have a focus and expertise on social services, local infrastructure and local affairs, discouraging a regional position and lobby on a preferred Brexit option. Whilst devolved administrations have a more formal role within the government's crafting of Brexit, not least as some aspects of agricultural policy have been devolved to these administrations, regions within England lack such routes for potential influence. Yet, all the interests of diverse economic sectors across the entire UK will need to be taken into account in the UK's negotiations on Brexit, and future trade agreements, to prevent trade-offs disproportionately affecting one area.

A further possible route for influencing Brexit negotiations is lobbying Brussels directly. However, the UK regional offices in Brussels historically focused on regional funds. Pushing for particular policies at the EU level had traditionally been pursued by mobilising the region's Members of the European Parliament (MEPs), discouraging the emergence of a regional lobbying strategy. The UK business associations, whilst represented within EU-level peak associations, have not been highly networked in Brussels, making recourse to such avenues for pressure more difficult. EU level lobbying has, therefore, been haphazard, with only some key sectors such as regional airports and airlines jointly writing to EU negotiators to expound their views.

Policy Implications

Regional and local authorities need to improve their expertise and capacity on trade policy.

Given the trade-offs involved in Brexit and future trade agreements, additional resource support for devolved and regional authorities to develop expertise on trade policy, and act as a locus for regional strategies for trade, and as a channel for informing Government of regional needs and priorities will be particularly important going forward.

Department of International Trade needs better outreach to SME businesses.

Smaller businesses will require transparent, easily accessible and timely information regarding Brexit and future trade agreements if they are to be able to adapt to these. A dedicated team within the Department for International Trade devoted exclusively to **SME outreach and creating an up-to-date online interface platform with procedures, rules and any changes in terms of trading** would lower the costs for smaller businesses of engaging with trade agreements and trade policy.

Methodology

This Policy Brief summarises key findings from guided discussions with a group of 25 regional business stakeholders at two half-day workshops organised by GW4 academics in May and June 2018 with the support of GW4 IF9-006 award to M. Garcia, University of Bath, C. Gammage, University of Bristol, J. Hunt, University of Cardiff and D. Thackery, University of Exeter.

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