



# MAKING BREXIT WORK FOR WALES' SMALLER BUSINESSES

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## MAKING BREXIT WORK FOR WALES' SMALLER BUSINESSES

FSB is Wales' largest business organisation, with around 10,000 members operating in a diversity of sectors right across Wales. As we move forward in the Brexit negotiations it is vital that the interests of Wales' 250,000 smaller businesses are front and centre throughout the negotiations and beyond. This is true of the needs of the UK as a whole, and also the specific needs of Welsh businesses within the UK.

As part of our work on Brexit, FSB has published four UK-wide reports covering the key aspects of Brexit and beyond for small businesses and the self-employed. These areas were access to markets, skills and labour, EU funding and what next, and finally the future of EU regulations in the UK post-Brexit.<sup>1</sup>

This paper is informed by the findings of these four reports, and draws out issues that are of specific significance to Wales. Our findings are informed by UK wide surveys with significant sub-samples drawn from Wales, and a Wales specific survey carried out by FSB Wales.<sup>2</sup>

We have sought to draw out issues that are of particular relevance and importance to our members in Wales, and seek to inform the UK's ongoing negotiations with respect to Brexit. This is both in terms of the relationship between the Welsh and UK Governments, and our future relationship with the European Union.<sup>3 4</sup>

We are pleased that the Welsh Government and Plaid Cymru have sought to agree a joint position on Brexit. A joined-up approach, across the political spectrum is the best way to deliver a good deal for Welsh firms. The pursuit of positions of consensus helps to promote a measure of confidence among businesses in what is an uncertain economic climate. Within the National Assembly, the engagement of the committees with the Welsh business community has been encouraging. Work produced so far on the broad implications of Brexit,<sup>5</sup> the future of Welsh ports,<sup>6</sup> and on regional funding<sup>7</sup> has been a high-quality contribution to the ongoing debate.

<sup>1</sup> Our four reports are titled "Keep Trade Easy", "A Skilful Exit", "Reformed Business Funding" and "Regulation Returned" and are available here: <https://www.fsb.org.uk/standing-up-for-you/policy-issues/european-union/brexit>

<sup>2</sup> Our UK wide surveys sampled around 1500 business owners, up to 250 of these firms were Welsh

<sup>3</sup> Welsh Government and Plaid Cymru (2016) Securing Wales' Future: Transition from the European Union to a new relationship with Europe

<sup>4</sup> Welsh Government (2017) Brexit and Devolution: Securing Wales Future

<sup>5</sup> National Assembly for Wales (2017) Implications for Wales of leaving the European Union

<sup>6</sup> National Assembly for Wales (2017) Inquiry into the implications of Brexit for Welsh ports

<sup>7</sup> National Assembly for Wales (2017) Inquiry into the future of regional policy – what next for Wales?

## ACCESS TO MARKETS

Trade will be one of the key issues for businesses in our negotiations to exit the European Union.

Our UK wide research shows that one in five small firms are exporters and a further one fifth are considering exporting in the future. Leaving the EU single market and full EU Customs Union, thus enabling us to exercise independent trade policy and therefore negotiate our own FTAs with countries outside of the EU including the US and China, if done right has the potential to open up new and exciting trade opportunities for small businesses.

However, it's evident from our UK survey work that the EU single market remains the top trade destination for both UK and Welsh small firms for both current and potential exporters. Welsh firms that do export are four times more likely to export to an EU destination than a destination outside the EU.

FSB Wales research confirms that around one fifth of FSB's membership in Wales exports, with around 13.5% of our members importing goods or services. Generally this is in line with the UK average.

The majority of our exporting members in Wales are actually exporting services and digital services, so we are particularly keen to see a favourable regime of non-tariff barriers post Brexit. Significantly, Welsh businesses are more likely to be exporters of digital goods and/or services than they are to importers of these items, demonstrating a relative strength of the Welsh economy (though this is consistent with the relevant strengths of the wider UK economy).

Where importing does occur, our Welsh members are generally importers of goods (68.8%) rather than than services or digital services, so barriers and tariffs on imports to the UK could likely be a more significant cost pressure for our membership in Wales.

Wales' biggest trade partner remains England, and economic integration between the two nations is significant. Following our exit from the EU, we are keen to ensure that any new regulatory arrangements protect Wales' trading relationship with businesses both within and outside the UK.

Furthermore, it is FSB Wales' belief that one of the first steps to encourage Welsh businesses to export beyond the UK is to encourage them to seek new markets further afield in the UK, looking beyond their immediate locality for opportunity. Welsh Government should look at means to support this.

It is also key that the UK is able to secure an interim deal on the customs union, giving small businesses in Wales time to prepare for any new arrangements and regulatory obligations arising from our exit from the European Union in 2019. FSB have therefore welcomed the UK Government's position paper on the customs union.<sup>8</sup>

Our report "Keep trade easy – What small firms want from Brexit"<sup>9</sup> makes a number of key recommendations in this area. These include the creation of export tax credits to encourage exporting, and also support to help small business explore new markets within the UK – a small first step towards exporting.

<sup>8</sup> <https://www.poundsterlinglive.com/economics/7329-small-business-interim-customs-deal-brexite>

<sup>9</sup> FSB (2017) Keep Trade Easy: What Small Firms want from Brexit <http://bit.ly/2nUWA1K>

Finally, we would like to see the Welsh Government publish a Trade and Investment Strategy as part of a wider economic development strategy. This would inform Welsh Government's input into UK wide trade deals post-Brexit. Any such strategy should include a commitment to small business chapters in trade deals, and would prioritise Wales' economic development over narrowly defined short term boosts to headline economic statistics.

It would guide a Welsh Government in driving up Welsh exports, and prioritising inward investment schemes which bring long-term benefit to Wales as a whole. The Scottish Government has published a Trade and Investment Strategy covering some of these themes.

A trade and investment strategy could also answer the question of whether Wales needs a Trade and Investment body, similar to Scottish Development International or Enterprise Ireland.

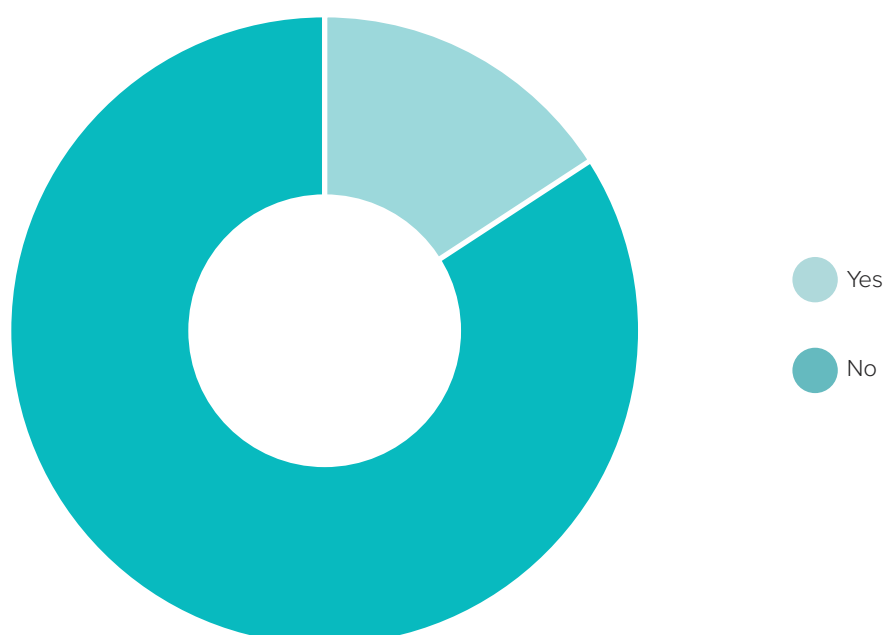
Following our exit from the European Union, we are pleased by reports that the Secretaries of State for Wales & Scotland are pressing for the Devolved Administrations to have a key role in the development of new trade deals. This will allow the unique needs of Wales to be reflected in our ongoing trade partnerships with the rest of the world.

## ACCESS TO SKILLS AND LABOUR

On access to skills, our UK research<sup>10</sup> shows that around a fifth of Welsh businesses employ European citizens. It is important for continued access to this pool of talent, especially where skills gaps exist in the UK and Welsh labour force. FSB Wales statistics show that the vast majority of EU workers in Wales are in medium or high skilled work.

We are concerned that post-Brexit changes in the labour market may more significantly impact business in rural areas – where access to a pool of skilled labour is more limited for geographical reasons. Our research indicates that some sectors in rural areas may be more heavily dependent on migrant labour.<sup>11</sup> This is also an issue acknowledged by the Welsh Government in their papers on Brexit.

### Graph 1: Are any of your employees non-UK EU nationals?

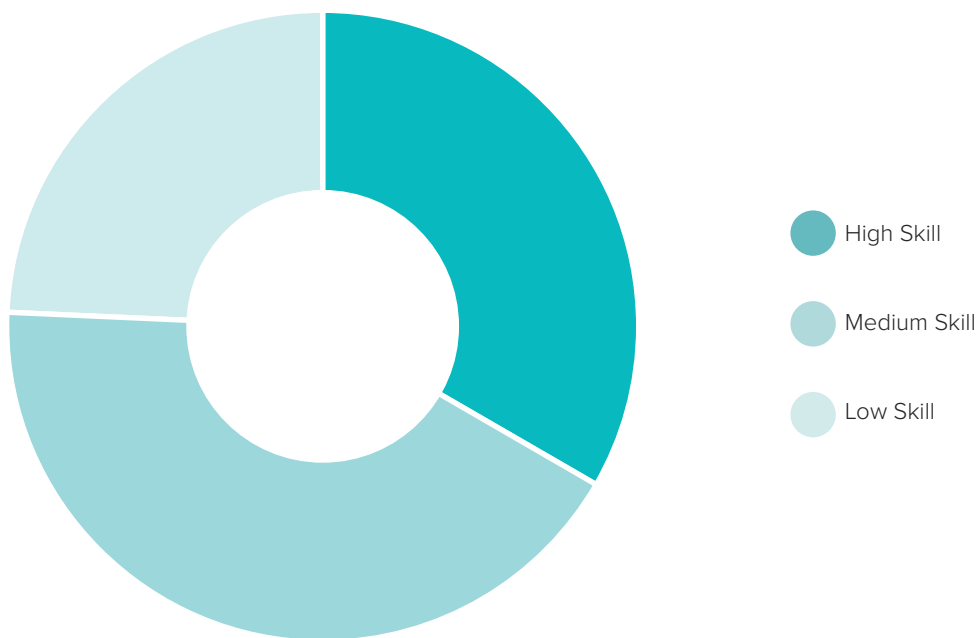


Around 16% of our members in Wales currently employ EU nationals from outside the UK, with the vast majority of these employees being medium or high-skilled individuals (42.4% and 33% respectively). [This trend is broadly similar with the UK wide survey results and in particular shines a light on the importance of EU mid skilled workers to small businesses].

<sup>10</sup> FSB (2017) A Skillful Exit: What Small Firms want from Brexit – <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/a-skillful-exit---what-small-firms-want-from-brexit.pdf?sfvrsn=0>

<sup>11</sup> ibid

**Graph 2: What type of work do your non-UK EU employees undertake? Indicate the type of work undertaken by the majority of non-UK EU employees.**



Our Welsh members report that they are hiring such individuals to fill gaps in their business that they are otherwise unable to fill, or that the individuals they are hiring fit well within the skills requirements for their business. We believe that this flexibility should continue to be available to all businesses, and that barriers to hiring skilled migrants should not be prohibitive to the smallest businesses.

Beyond this, 3.4% of our surveyed members are EU nationals who own or operate business in Wales. Whilst this number is a small proportion, and we are unable to provide further analysis based on the size of the sub sample, the needs of these business owners in the transition should be further explored. Wales and the UK must remain an attractive place to set up a business for entrepreneurs from around the world.

Perhaps more importantly, a significant portion of our members in Wales suggest that in response to restrictions on free movement of EU labour they will seek either to redouble efforts to attract and train UK workers or will seek to absorb the costs of a new immigration system. However, it is clear that business will not be able to successfully absorb any cost. It is therefore essential that the UK Government seeks to ensure that the costs of any post-Brexit work permitting system are minimal, and that the Welsh Government is able to provide appropriate training and education to meet our skills needs.

As in other areas, FSB has welcomed the UK Government's commitment to some form of transitional period (they call it an implementation period) and a phased introduction of any new immigration system, avoiding a scenario where smaller firms will be locked out of accessing the labour and skills they need. With a phased introduction, small firms must have the time they need to prepare.

Following our exit from the European Union, the needs of Wales should be reflected in any migration policy. Consideration should be given to the role of the Welsh Government in developing any new migration policy, and how the unique needs of the Welsh economy should be reflected.

## EU FUNDING

Wales currently receives about £680million a year in EU funding<sup>12</sup> this is effectively a significant boost to the public purse in Wales, and such funding has been used for a number of schemes that are intended to support businesses in Wales or undertake economic development activity in Wales.

UK wide, there are concerns that lending to small businesses is falling as it is expected that access to the European Investment Fund and European Investment Bank will cease at the point at which we exit the EU<sup>13</sup>, and this issue is likely to be felt most acutely in West Wales and the Valleys.

Post Brexit, if funds of similar value aren't available to Wales, the Welsh economy stands to be much worse off. GVA in West Wales and the Valleys remains significantly below the UK average, despite encouraging trends in recent years.

**Graph 3: Has your business accessed EU funding?**



For instance, our research<sup>14</sup> shows that just under a quarter (22.9%) of Welsh SMEs have received support from European funding streams, primarily signposted through “Business Wales” or wider skills and business support.

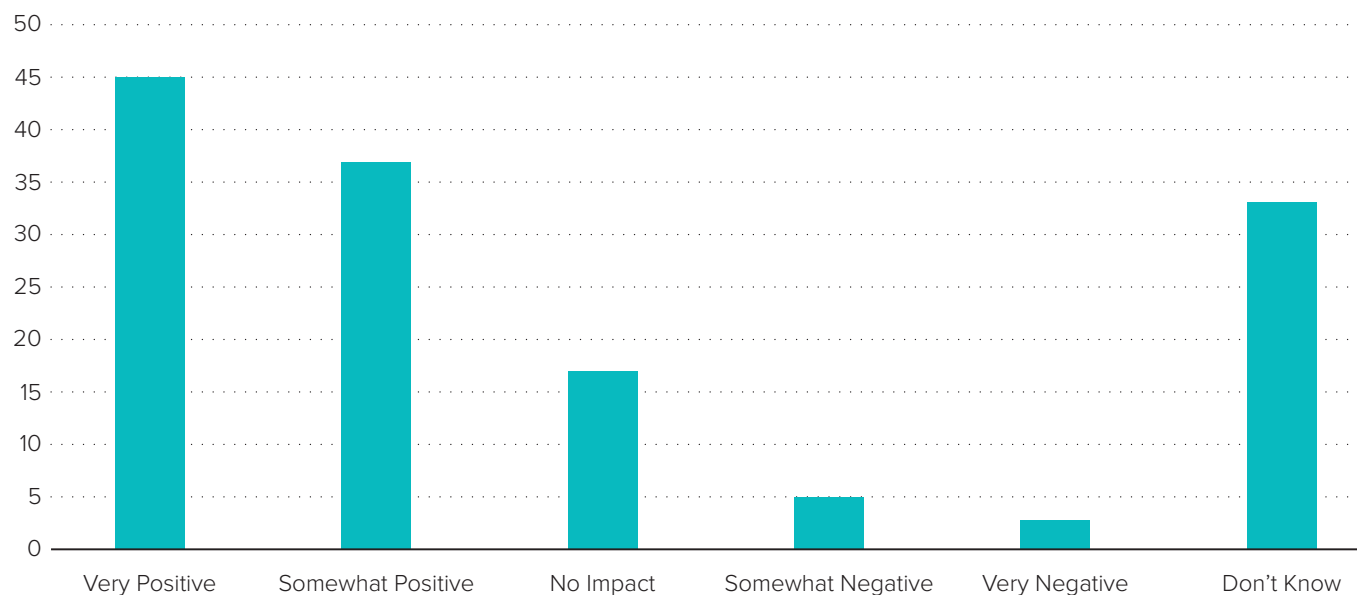
This financial support has been used to provide skills training, research and development and business development support. FSB Wales also knows that a significant proportion of the apprenticeships budget, a key support to SMEs and wider skills development in Wales is currently funded by the EU.

<sup>12</sup> Welsh Government (2017) Brexit and Devolution: Securing Wales Future

<sup>13</sup> <http://www.fsb.org.uk/media-centre/press-releases/small-business-lending-worsens-as-eu-funding-dries-up>

<sup>14</sup> FSB (2017) Reformed Business Funding – What Small Firms want from Brexit <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/reformed-business-funding.pdf>

**Graph 4: What impact has EU funding had on your local area?**



More widely, our members report that EU funding has had a net positive impact on their business and local area, with only around 15% of respondents to our surveys suggesting that funds had no impact or a negative impact. FSB Wales therefore believes that Wales should continue to receive funds of equal or similar value post-Brexit, a position supported by the majority (78%) of our membership in Wales. This would help support and maintain the momentum of economic development in Wales and would ensure that funding is available for the Welsh economy relative to its need.

Whilst members have reported difficulties in applying for funding, or that conditions attached to funding have been overly restrictive, it is clear that these funds appear to have had a key role in supporting Welsh business.

In designing funds in the post Brexit landscape, the experiences of Wales' small business should be used to inform best practice. It shouldn't be the case that poor design, or disbursement of past funds should preclude the existence of new funds that suit the need of Wales.

The future of Wales' regional development funding, currently largely delivered through European programmes is a key issue for FSB Wales' members and Wales as a whole, and we would like to see this addressed as a matter of priority.



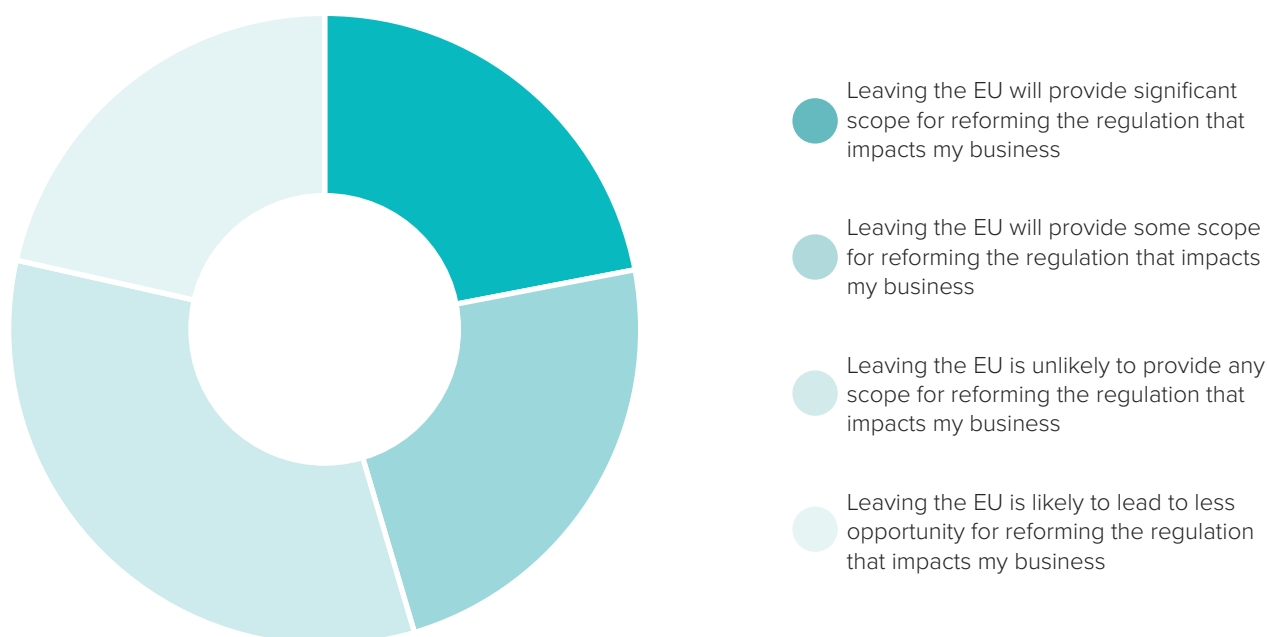
## EU REGULATION

Our final report, on what happens to EU regulation in the UK post-Brexit<sup>15</sup> informs the debate on this long-term issue over the coming years.

It is expected that EU regulation (the *acquis*) as a whole will transfer into UK (and Welsh) law on the day we leave the EU, which would avoid a cliff-edge for small firms and provide some short term stability. Following this, we recommend a gradual approach to regulatory reform, rather than any sudden changes to regulation.

FSB Wales has previously published work on Wales' regulatory landscape, and we remain keen to see the recommendations of our 2014 report "Better Regulation for Wales"<sup>16</sup> taken up by the Welsh Government and National Assembly for Wales. This report recommends that Welsh Government pursue an active regulatory improvement agenda, which will make it easier for SMEs to comply with the law. Much of this report is still relevant, perhaps even more so if we see significant regulatory reform post-Brexit.

### Graph 5: Thinking about the forthcoming change in the UK's relationship with the EU, to what extent do you think there will be scope for reforming the regulations that impact your business as a result of leaving the EU?



<sup>15</sup> FSB (2017) Regulation Returned – What Small Firms want from Brexit <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-regulation-retained-report.pdf?sfvrsn=0>

<sup>16</sup> FSB Wales (2014) Better Regulation for Wales <http://www.fsb.org.uk/LegacySitePath/policy/rpu/wales/images/better%20regulation%20wales.pdf>

The majority (53%) of small businesses in the UK believe that leaving the EU will provide either significant (25%) or some (27%) scope for reforming regulations that impact their businesses. This compares to 34 per cent that believe leaving the EU will provide either no new scope for regulatory reform (26%) or even less scope than we have today (8%).

A striking feature from our Welsh specific data, is that a small majority (54.54%) of our membership believe that leaving the EU will not provide additional opportunity to reform regulation that affect their business. However, 21.9% of the sample suggest that leaving the EU will provide a significant opportunity to reform regulation that affects their business. There is likely to be strong sectoral differences in responses to this section, and is perhaps also reflective of the relatively low levels of smaller firms who export.

This is in contrast to the earlier UK wide survey which showed that Welsh businesses were confident that leaving the EU would provide opportunity to reform regulation (70%), this may indicate that the nature of the public debate has shifted Welsh businesses perception away from the potential opportunities that leaving the EU presents. It may also represent differences in the sectoral composition of businesses responding to our surveys.

Frequently, the difficulties with regulatory compliance reported by our members are due to local enforcement and delivery, not the specific content of regulation. Welsh, and UK Government should seek to ensure that ease of compliance and enforcement, through effective local channels is the priority in a post Brexit landscape.

It is also vital that the Welsh and UK Governments are able to work together to ensure diverging UK domestic policies don't create new barriers to firms trading between Wales, Scotland, England and Northern Ireland. We've suggested the Joint Ministerial Council [JMC] needs to be improved and repurposed, to create a forum for discussing these issues. A repurposed JMC should have greater visibility to ensure that business has the confidence that there is a recognised forum for the negotiation of important regulatory issues around Brexit.

It is also vital, post Brexit, that business has confidence in the continuity of decision making arrangements. This is of particular importance in areas where the overlap between UK and devolved competence may affect the integrity of the UK single market – such as agricultural and environmental standards where there are differing regimes on each side of the England/Wales border.

## CONCLUSION

Wales' economy is one of small firms, with the vast majority of businesses operating here employing fewer than 25 people. Wales' private sector workforce is also generally employed in SMEs. For these reasons, making a success of Brexit is key to the future success of Wales.

From our research FSB Wales would like to see the following features as a matter of priority:

### Access to Markets

- A transitional deal which provides clarity and stability for Welsh business.
- Post-Brexit trade arrangements that preserve Welsh firms' access to their key markets.
- FSB Wales believe the UK Government should seek to minimise tariff and non-tariff barriers with the EU single market following our exit from the EU.
- Welsh Government should assist the smallest Welsh firms in exploring new markets within the UK, as a first step to trading internationally.
- The Welsh Government should consider the development of a trade and investment strategy and potentially, the creation of a body to support the delivery of this.
- Welsh Government, in partnership with the UK Government where necessary should seek to better define and promote the Wales brand as a more effective vehicle for creating opportunities for Welsh businesses and investment.

### Access to Skills and Labour

- Post-Brexit migration arrangements should protect Welsh firms ability to fill skill gaps. Costs associated with hiring migrants should be kept to a minimum.
- Welsh Government must ensure that education services in Wales are responsive to the needs of local business. Skills and training tailored to the needs of the local labour market will be necessary.

### Funding

- A funding deal which gives Welsh firms access to similar facilities and packages that would have been available had we remained in the European Union.
- Any future funding regime should preserve best practice as it has emerged in Wales, and be designed with the smallest businesses in mind.

### Regulation

- The Joint Ministerial Council should be repurposed and given greater visibility and transparency as a forum for resolving areas of domestic regulatory divergence where this has the potential to damage the UK internal market.
- A gradual and considered approach to regulatory reform post-Brexit, with clear staging and signposting to ensure ease of compliance.
- The Welsh Government should take forward a "better regulation" agenda for Wales.

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