

Written Response by the Welsh Government to the report of the External Affairs Committee entitled INQUIRY into the implications of Brexit for Welsh Ports

I welcome this report and the Committee's recognition, as part of its wider considerations of Brexit, that ports have a significant role to play in supporting Wales 'economy.

The ports sector makes a major contribution towards our ambition of providing a united, connected, sustainable and more prosperous Wales.

They are an important source of economic wealth, provide a large number of jobs and have a critical role in ensuring Wales is connected to global markets.

Welsh Government is closely engaged with the sector, and we are committed to ensuring our ports are able to continue their contribution to the current and future prosperity of Wales, particularly in the context of further devolution from April 2018.

Welsh Government is actively seeking to understand the threats and opportunities which could impact on our ability to protect and enhance the role of ports following Brexit.

In our White Paper, *Securing Wales' Future*, we set out clearly our priorities for Brexit – including the critical importance of avoiding disruption to our trade. We also stressed that any changes to migration and/or customs rules would have an immediate and major impact at Welsh ports.

We will continue to work with the Welsh Ports Group and individual ports in Wales to understand the risks and benefits associated with Brexit and develop the right policies and interventions as more definitive information is known in respect of customs and tariff arrangements.

We will also continue to work closely with other partners, such as the Government of Ireland, to assess the implications of Brexit and explore mutual challenges and opportunities. Wales provides a strategic link with Ireland for the rest of the UK and mainland Europe and ensuring that link is maintained will be of benefit to all parties.

Since the publication of the Committee's report, the UK Government has set out its preferred approach on streamlined customs arrangements post-Brexit which will be contingent on EU agreement. We will consider and engage on further detail via the UK Government's proposed White Paper which is expected later this Autumn and will update the Committee as developments progress.

I have set out my response to the Report's individual recommendations overleaf.

Detailed Responses to the report's recommendations are set out below:

Recommendation 1

The Committee recommends that:

The Welsh Government continues to press the UK Government on the need to ensure that Welsh ports are not unfairly disadvantaged as a result of any potential differentiated border arrangements between Northern Ireland and the Republic of Ireland and between Great Britain and the island of Ireland, and keeps us updated on progress with these matters.

Response: Accept

We fully recognise the disproportionate impact to Wales which could arise from a soft land border between Ireland and Northern Ireland, and a hard sea border between the island and UK mainland ports- especially at the port of Holyhead.

Currently over 70% of cargo to and from Ireland, Great Britain and the wider EU pass through Welsh ports. If there were effectively no customs checks in the island of Ireland but they were introduced at mainland UK ports, freight operators may be encouraged to move cargo flows through the Irish land border and into the UK from Northern Ireland – using Liverpool and/or Scotland as part of the 'land bridge', and not Wales.

The UK Government has recently set out its preferred position in respect of both future customs arrangements¹ and the Irish border². Customs arrangements, tariffs, and the wider fiscal regime and are reserved matters for Her Majesty's Revenue and Customs (HMRC), and we – alongside other key partners will continue to press the UK Government to ensure border arrangements do not in any way disadvantage Welsh ports.

We have asked the UK Government to ensure they fully engage with us on customs issues to to understand the practical impact of new customs arrangements in Wales, both in terms of ports and the wider economic impact to Welsh business.

Financial Implications – No financial implications

Recommendation 2

The Committee recommends that:

¹ <http://www.gov.uk/government/publications/future-customs-arrangements-a-future-partnership-paper>
² <http://www.gov.uk/government/publications/northern-ireland-and-ireland-a-position-paper>

The Welsh Government keeps us informed and updated on progress in developing an IT-led solution to the UK's future customs arrangements.

Response: Accept

The precise circumstances for which IT-based solutions will need to be tailored are not yet known. There is therefore a need for clarity – in respect of both transitional arrangements and the trading arrangements with the EU in the long term.

Welsh Government will work closely with the UK Government and key stakeholders to ensure the future position is clarified as soon as possible, and that ports in Wales are supported to deploy the right solutions to the challenges ahead.

Financial Implications – No financial implications.

Recommendation 3

The Committee recommends that:

The Welsh Government sets out in its response to our report what it anticipates the cost to the public purse will be of the proposed new IT-led customs arrangements post -Brexit and how it expects those costs to be borne. We recommend that the Welsh Government seeks clarification from the UK Government on the anticipated timescales for the development and implementation of these IT-led customs arrangements.

Response: Accept in Principle

Clarity is needed on the nature of the IT solutions that would be required before the detail around costs implication can be meaningfully anticipated. This includes any impacts on the public purse as well as costs to privately owned ports.

We will continue to make clear that we expect any additional costs which arise as a result of UK Government decisions on areas which are not devolved – such as a trade policy and customs arrangements, including new IT systems – must be borne by the UK Government.

Financial Implications – No direct financial implications anticipated for Welsh Government. Any costs arising to the public purse as a result of non-devolved changes made by the UK Government – including customs arrangements – must be met by the UK Government.

Recommendation 4

The Committee recommends that:

The Welsh Government seeks to mitigate the risk to Welsh businesses of a lack of preparedness by working with HM Revenue and Customs to explore with Welsh businesses the scale of the challenge and provide any support required to ensure they benefit from Authorised Economic Operator/Trusted Trader schemes.

Response: Accept

The deployment of Authorised Economic Operator, Trusted Trader or similar schemes will need to be considered and rolled out on a UK-wide level. We fully expect businesses in Wales to be able to take advantage of such schemes if the UK Government were to develop them.

As part of our continued engagement with HMRC we will explore with them the most effective mechanisms – informed by close stakeholder collaboration - to ensure the minimum amount of friction for Welsh Ports and the best solution for Welsh businesses.

Financial Implications – No financial implications

Recommendation 5

The committee recommends that:

The Welsh Government sets out in its response to our report how it intends to address the lack of physical capacity to accommodate new borders and customs checks at Welsh ports, and develop a highways management contingency plan to manage potential congestion resulting from delays in ports.

Response: Accept in Principle

Through our engagement with the sector it is clear that the constraints in respect of providing sufficient land mass for Welsh ports to cope with a less efficient border regime would be complex and not easily resolved.

We will continue to engage with ports on this matter and ensure that, together with impacts to surface access which could arise, it is fully taken into account when developing a Government and sector-wide approach to understanding, mitigating and resolving the impacts to Welsh ports as a result of Brexit.

Financial Implications – No financial implications.

Recommendation 6

The committee recommends that:

The Welsh Government, in partnership with the sector, draws up detailed contingency plans for Welsh ports for the various scenarios that the UK could face at the end of the Article 50 notice period. These contingency plans should be reflected in the Welsh Government's forthcoming Ports Strategy and should include (but not be limited to):

- working with the sector to identify what support they may need to prepare for Brexit;
- an assessment of the scale of the technical and infrastructure constraints and requirements faced by Welsh ports; and
- provisions for a "no-deal" scenario.

Response: Accept in Principle

We will continue our engagement with ports, businesses and the UK Government to comprehensively understand the significance of proposals arising from the UK Government's Brexit negotiations, and to ensure the risks and associated mitigations can be considered and implemented in an efficient and timely manner.

As advised, the UK Government has set out its preferred approach on streamlined customs arrangements post-Brexit which will be contingent on EU agreement. We will consider and engage on further detail via the UK Government's proposed White Paper which is expected later this Autumn. As part of the process, we will look where necessary to develop appropriate contingency plans, working with the sector and other key stakeholders.

Financial Implications – No financial implications

Recommendation 7

The committee recommends that:

The Welsh Government urgently addresses the lack of engagement it has had with counterparts in Ireland and other EU member states on the issue of ports and seeks opportunities to engage with them that are in addition to routine meetings such as those of the British-Irish Council.

Response: Accept

Welsh Government has engaged with EU member states to understand areas of risk and opportunity, and will continue to do so.

The primary risks to the continuing successful operation of Welsh ports – and the Welsh economy as a whole – will be in respect of the implementation of new customs and trade policies.

Therefore our priority is to ensure Welsh ports and the Welsh economy is not disadvantaged as a result of any decisions taken by the UK Government. Discussions with member states will help inform us of additional risks and opportunities as we continue our discussions with the UK Government.

Further engagement with the Irish Government will be particularly important given the relationship and connectivity between our two countries, especially via our ports, and I am taking this forward at Ministerial level through discussions with Shane Ross, Minister for Transport, Tourism and Sport. Discussions at official level are also ongoing.

Financial Implications – No financial implications

Recommendation 8

The committee recommends that:

The Welsh Government is more proactive in its approach to the designation of Free Zones / Free Ports and undertakes further work to determine whether or not a port, or ports in Wales, could benefit from Free Port designation.

Response: Accept

Our key priority is to work with ports in Wales to influence the UK Government in establishing the best possible customs and tariffs arrangements which will improve prosperity and provide growth for our ports and wider economy and enhance commercial activity across Wales.

Free trading zones which take advantage of a range of fiscal benefits and not just tariff relaxations can provide a useful economic tool for countries in a strong position to support them. Brexit could provide an opportunity to explore their potential use within the UK, which would remain a reserved matter.

We will engage pro-actively with the sector and individual ports on the potential of free zones and with the UK Government as its thinking develops.

Ken Skates AM
Cabinet Secretary for Economy and Infrastructure