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Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

Y Pwyllgor Materion Allanol a Deddfwriaeth Ychwanegol

The External Affairs and Additional Legislation Committee

21/11/2016

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Meeting Agenda

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Public for the Remainder of the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Dawn Bowden Bywgraffiad Biography	Llafur Labour
Michelle Brown Bywgraffiad Biography	UKIP Cymru UKIP Wales
Mark Isherwood Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Steffan Lewis Bywgraffiad Biography	Plaid Cymru The Party of Wales
Jeremy Miles Bywgraffiad Biography	Llafur Labour
Eluned Morgan Bywgraffiad Biography	Llafur Labour
David Rees Bywgraffiad Biography	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)

Eraill yn bresennol
Others in attendance

Yr Athro/Professor Peter Halligan	Cymdeithas Ddysgedig Cymru The Learned Society of Wales
Yr Athro/Professor Gerald Holtham	Prifysgol De Cymru The University of South Wales
Syr/Sir Emyr Jones Parry	Cymdeithas Ddysgedig Cymru The Learned Society of Wales

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Alun Davidson	Clerc Clerk
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Gwyn Griffiths	Uwch Gynghorydd Cyfreithiol Senior Legal Adviser
Elisabeth Jones	Prif Gynghorydd Cyfreithiol Chief Legal Adviser
Rhys Morgan	Dirprwy Glerc Deputy Clerk
Robin Wilkinson	Y Gwasanaeth Ymchwil Research Service

*Dechreuodd y cyfarfod am 13:37.
The meeting began at 13:37.*

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau Introductions, Apologies, Substitutions and Declarations of Interest

[1] **David Rees:** Good afternoon, and can I welcome Members and the public to this afternoon's session of the External Affairs and Additional Legislation Committee? We'll continue our inquiry looking at the impact on the Welsh economy and life as a consequence of the decision to leave the European Union. Before we continue our evidence sessions, can I remind Members this session is bilingual and that headphones are available for simultaneous translation from Welsh to English on channel 1? If people require amplification, then that's available on channel 0. Can you please turn off your mobile phones or put them on silent, and other electronic equipment that may interfere with the broadcasting equipment? There is no scheduled fire alarm this afternoon, so if one goes off, please follow the directions of the ushers. We've had apologies from Suzy Davies, but there is no substitute today.

13:38

**Gadael yr Undeb Ewropeaidd: Y Goblygiadau i Gymru—Sesiwn gyda
Gerald Holtham**
**Leaving the European Union: Implications for Wales—Session with
Gerald Holtham**

[2] **David Rees:** We can now move on to our first evidence session this afternoon, and can I welcome Professor Gerry Holtham from the University of South Wales? I don't think he needs any introduction to many of us, because I know Gerry has worked for the Welsh Government in the past, looking at funding issues in particular. But, clearly, we're looking at the implications of the decision to leave and how that affects the economy of Wales. In a sense, perhaps, I'll start with a simple, generic question. Prior to the referendum, you were concerned about the impact a decision to leave would have. You've re-emphasised that concern. Is the consideration of whether we go into the single market or whether we will now end up with World Trade Organization-type rules—how deeply concerning is that to an economy? If we go into WTO because we haven't agreed anything by the end of Brexit, what's the type of length of time you would expect us to be able to continue operating without any major impact upon the economy?

[3] **Professor Holtham:** Thank you, Chairman. If we were to remain within the single market and it were to become clear that that was the objective at a fairly early stage, I think that would certainly reduce the economic disruption caused by Brexit, because, evidently, the trade relations, you would expect them to be largely unchanged. If on the other hand that's not clear, then uncertainty will persist and I think we're already seeing something of a slowdown in business fixed investment in the UK, while people just wait to see what's going to happen. And, of course, that would continue. In the event that it became clear that we were not going to remain within the single market, I think that would certainly have consequences for where multinational companies and others site their activities. I would think that there would be quite a sustained, long-term effect from that decision. So, I do think that is a material question.

[4] As far as the interim arrangements are concerned, I think people would be particularly worried if they were afraid that you're going to have to get into discussions when article 50 is triggered, and these were not going to be concluded at the end of the two-year period, and therefore, you're going to hit an air pocket in which nothing had been decided. I think that would be a particularly damaging outcome. So, I think if it becomes clear that the

negotiations will take more than two years, it will be necessary to try and organise some interim soft-landing arrangements. And I really wouldn't care to guess how long full negotiations could take. Looking at Canada, it took, I think, seven years or something. Mrs May has said she wants not a generic, but a bespoke settlement, which, of course, increases the risk that you're looking at a good number of years.

[5] **David Rees:** In that light, you've also highlighted the concept of mini-single-market approaches—maybe sector based. How could that operate and would it be to the benefit of Wales as a consequence?

[6] **Professor Holtham:** Well, it might well be to the benefit of Wales if it could be pulled off. I've no strong conviction that it could be, and I think there would be some political resistance within the European Union to what they would regard as 'à la carte Europe' and picking and choosing, but I don't know that it's absolutely impossible. If you said, 'Look, we will accept freedom of movement of people within this sector, so if you're coming here to take a job in this sector, you're okay. And if there's some centralised research element that requires a subscription, we'll pay it.' So, if you were saying, 'We're going to be very communautaire within the sector', I don't know whether it would be possible to pull off a series of sectoral single market deals that would then leave the rest of the economy outside. Certainly, there are some sectors in Wales that I think are quite vulnerable to Brexit, notably the automotive sector, and I think if a deal could be pulled off for that, it would have some beneficial effects.

[7] **David Rees:** Eluned, do you want to come in on this?

[8] **Eluned Morgan:** Yes, just on that, can you tell us whether you think there's any significance to that Nissan deal, then? Was that the beginning of what they hoped to see as a sectoral deal on automotive?

[9] **Professor Holtham:** Well, of course, they've played that one close to the chest; we don't know exactly what they did say to Nissan. Maybe they did say, 'We're going to try and make sure that at least, in the auto sector, there is something like a single market that persists', or maybe they just said, 'If it doesn't happen, we'll see you right; we've got the cheque book out' or whatever. So, I don't know, but I think that is a possibility. That may be one of the possibilities that was held out.

[10] **David Rees:** Are you aware of whether the other European nations are

of a mind to go for a similar concept?

[11] **Professor Holtham:** Well, you can see that there are going to be huge conflicts of interest there, because the Germans, for example, if you think about how broken up and interlinked the supply chain is in the auto sector—. I mean, BMW is assembling Minis in Oxford and it's shipping half of the bits in and then shipping the car out. So, there's a lot of to-ing and fro-ing, and it would require reorganisation of supply chains, I think, if we were to be completely out of Brexit and facing an 8 per cent tariff or whatever it is. The problem in the car sector is that so much of the value is imported before you assemble the car that it's all very well saying, 'Well, you know, it's only 8 per cent tariff', but if the value added in the UK is only 25 per cent of the total, 8 per cent is a third of the local value added.

13:45

[12] So, that then starts to dwarf even the effect of a 20 per cent devaluation of the pound. It's those broken supply chains that make it complicated. That would give, I'm sure, say, the German motorcar industry an interest in saying, 'Let's not rock the boat, let's try and keep this going', but you've got to get 23 countries to sign up. Spain and Slovakia will be eyeing up those car plants saying, 'If they come out of the UK, they'll probably come here.' So, whether they would be so well disposed, I don't know. I think that is one of the difficulties. That is why these things take a long time; you've got to get unanimity among 20-odd countries.

[13] **David Rees:** Thank you. Mark, do you want to ask questions on trade?

[14] **Mark Isherwood:** You mentioned specifically auto and higher education—have you got any other sectors in mind, for instance aerospace—predominant in the north east—and agriculture and food?

[15] **Professor Holtham:** I think aerospace is an interesting one as well, because there we've got a very intermingled supply chain, and we're only doing a little bit, and it's not clear to me that they couldn't make those wings in France if they wanted to, so I think that is certainly an issue. It's not a sector I know a great deal about, but Wales has got some interest in developing pharmaceutical and bio sectors, and there again, they're quite heavily reliant on exports. So, I think that's another sector perhaps, medical appliances and pharmaceuticals. Aerospace, as you say, and—. I think, obviously, the farming industry is appropriately concerned, because one of

the arguments that the people strongly in favour of Brexit were making was that we could unilaterally reduce import tariffs if we were outside the EU, and everything would be cheaper to the British consumer. That doesn't sound great for farmers to me. I think you're going to get a lot of cheap food imports.

[16] **Mark Isherwood:** In terms of divergent priorities or commonalities of priorities between the UK and Wales, do you see a divergence or a commonality when it comes to eyeballing across the table?

[17] **Professor Holtham:** I don't think there are huge divergences, although, certainly, the emphases might be a bit different. I mean, I don't think that Wales is—although there's a lot of talk about our booming financial sector, our financial sector isn't very externally orientated. So, if the financial services sector in London catches a cold, I don't think we'll be very badly affected here. Most of our back offices are serving insurance companies with a domestic market, on the whole. On the other hand, we are more exposed to manufacturing and to the auto industry than some other parts of the UK. So, yes, I think there are different emphases, but, no, essentially, it's a very integrated economy and we're facing much the same sort of problem.

[18] **Mark Isherwood:** Thank you. In terms of future trade agreements outside the EU—and, obviously, we can't formally negotiate those until post Brexit, but we can do pre-agreement work—Canada told us when we met them in Brussels—you referred to Canada—that we were already their major trading partner and it wouldn't impact on them, but they'd happily have a trade agreement if we wanted one. And we know, from some of the latest trade figures, Wales was doing more with the America/Asia Pacific region than it was with EU. But what threats and opportunities can you see, in terms of broader global trade agreements, post Brexit?

[19] **Professor Holtham:** Just a word of warning on those trade numbers, it's true that if you look at them they suggest the US is the biggest single export market for Wales, but they're quite heavily distorted. For example, we recondition a lot of aero engines and, when they're exported, the value of the export is not the value of the reconditioning, it's the value of the engine, and a lot of those are going to the United States. So, I think, if you were to break into the numbers, it's not as evident as all that that we're not pretty well as dependent on the European trade as the rest of the UK. That said, we do have some interesting companies in Wales that are selling into the third world, and, of course, they're doing quite well, because they're pricing in dollars to

places like the Sudan and India. And as long as their costs are largely in sterling, they're benefiting greatly from the devaluation of the pound against the dollar, and I think that's likely to continue. So, there will be a subset of Welsh companies that will actually benefit from Brexit for that reason. But how large a proportion that is, and how quickly you could build up their trade to offset the losses of the European-oriented ones will face, is unclear to me.

[20] **Mark Isherwood:** Thank you.

[21] **David Rees:** Jeremy—. Go on, then. Quick one.

[22] **Eluned Morgan:** It was just on pharmaceuticals—so, we've got quite a new industry here that we're starting to develop, but my understanding is that we buy, obviously, as a public sector, a huge number of drugs from the continent, for which now the prices have just increased massively. Is there an opportunity, with the low value of the pound, for us to export more and more of the sectors that would benefit from that? What do you think are the main areas?

[23] **Professor Holtham:** Well, we've got a lot of engineering exports that benefit, and also things like civil engineering. We've got companies that have contracts that are building things in Dubai and companies like Dawnus, for example, doing a lot of work in Africa—they must be benefiting very considerably. Companies like Hydro Industries that are providing clean water in the Sudan and India and places—they will be benefiting very clearly as well. So, I think there are companies in the engineering sector that have that third world orientation that should benefit. We've got another company that provides refrigeration for vaccines in the third world. They've outsourced the production anyway, but they still should be benefiting somewhat.

[24] **David Rees:** Jeremy.

[25] **Jeremy Miles:** You mentioned in your first response to the period of uncertainty that we're going through now, and presumably the dampening effect that that may have on inward investment, and if we don't get the right sort of arrangement with Europe, that may continue. What would be the right policy response, from the Welsh Government's point of view, to that prospect?

[26] **Professor Holtham:** Well, in my opinion—I don't have a lot of hard data

to back this up, but it's a view I've got—with economic development, you should both be trying to encourage inward investment and you should be trying to stimulate your own growth companies. The pay-off to a pound spent in either of those areas has just shifted. The pound spent on trying to get inward investment in is going to have a smaller return because it's just going to be very much harder. So, I think you should be thinking certainly of a pivot towards—to use an Obamaesque word—a domestically oriented sort of company, like some of the companies that I've just been talking about. You know, if we had a Welsh merchant bank you'd be bowling out there and saying, 'Look you're doing great. How could you be doing much better? What would you need to double your business?', and I'd be looking to try and orientate any industrial policy in that direction. How do we support companies that have opportunities as a result of this situation, rather than trying to attract in other companies? You keep talking, obviously, but you don't expect to get anybody coming in much in the next year or two, I wouldn't think.

[27] **Jeremy Miles:** You've written about the possibility of a low growth period as well as a consequence of Brexit. How would you like to see Government policy respond to that prospect? Is it the same set of policy prescriptions or other—? You've spoken about the requirement for investment in infrastructure and so on.

[28] **Professor Holtham:** I think it's going to be difficult because the UK Government is going to face budgetary difficulties. If you get a period of slower growth, particularly if the City is affected, tax revenues will be down, they will have to maintain some sort of austerity, or whatever they call it, and Wales will get the backwash of that through the operation of the Barnett formula. So, I think it's not going to be easy. Obviously, we should try and take advantage of any EU funds we can get in the last two years in which we can get them. I've argued for a long time that the Welsh Government should have taken advantage of this period of very low interest rates to mobilise private finance for infrastructure investment. Private finance is a bit more expensive than if you issued your own bonds, but if we can't issue our own bonds, it's better than nothing, at the kind of interest rates we've seen in the recent past, and particularly after the initial learning period, when private finance initiative deals were, on the whole, bad deals. But you live and learn, and it was possible, I think, to have done much more in recent years than we've actually done, because we haven't done much.

[29] I think time's running out. My personal view is that the interest rates

will now rise quite strongly in the next few years, if the American administration behaves in the way that the City certainly expects it to behave, and that I expect it to behave, for what that's worth; you know, 'Is he going to push the boat out—cut taxes, increase expenditure?' US interest rates are going up. They're up 0.5 per cent already in the last couple of weeks, and that's just the start. So, I think we may be coming to the end of a period of really, really low interest rates, and we're in danger of missing the boat, I think. If we can't—. If our capital budgets are constrained, we should be attempting to mobilise borrowed funds while we can do so at good rates.

[30] **Jeremy Miles:** And is there anything about the—? You mentioned the focus on domestic companies in your earlier response. Is there anything about your analysis of the future, that balance of policy there, which suggests that a different kind of infrastructure investment would more profitable and more useful than other kinds of investment?

[31] **Professor Holtham:** We've done some work recently that suggests that there is quite a strong pay-off to investment in informatics, in broadband and that sort of connectivity, which isn't too bad around here at the moment, but there are many parts of Wales where it's not so clever. So, I think that's an area—. I know the Welsh Government has a deal with BT. I haven't looked at it in great detail, but I know there are widely differing opinions about it, so I think that's probably worth another look.

[32] It's quite difficult to say in what way you should emphasise infrastructure if you don't have an explicit economic strategy. You know, if you don't have an explicit economic strategy, your infrastructure strategy just tends to mean, 'Where's the shoe pinching? Let's do something there', but it's hard to be more specific without knowing what the Government is trying to do in a strategic sense.

[33] **Jeremy Miles:** Just one final one: but the prospect of reduced investment from overseas doesn't tell you anything specific about any kind of changes to an infrastructure policy that you'd want to see. It's agnostic in that sense.

[34] **Professor Holtham:** Yes, I think it is, and I think there's a very good general case for the sort of agglomeration arguments that are made for improving public transport in the Cardiff and Swansea inner-city regions. I think those are economically highly defensible propositions. Whether there's anything similar that could be done on the north Wales coast, I don't know.

But apart from that, I think you need a specific economic strategy to have a very firmly formulated infrastructure strategy.

[35] **Jeremy Miles:** Thank you.

[36] **David Rees:** Can I take it from that point that your opinion is that the Welsh Government is lacking in having a strong economic strategy?

[37] **Professor Holtham:** Yes, I mean, we've tended to do things like have so-called sector strategies that started off with six and then become nine. And I'm afraid I don't think you can concentrate on nine sectors that account for about 80-odd per cent of the economy. That's called defusing, not concentrating. There have been lots of statements that one could only agree with that the Welsh Government's made in various documents, but they haven't really been driven to the point where you've got a very clear idea of what they're doing, and in a way that clearly indicates where resources should be directed.

[38] **David Rees:** Thank you. Before I move on, one question about inward investment: we've focused on new businesses coming in, but of course there are businesses already in existence, as you've already highlighted—Ford being an example, Tata being another one. What's the likelihood of investment into those industries that are already here as a consequence of Brexit? Are we seeing the recent announcement by Ford as an example of, perhaps, how some businesses will hold off at this point in time?

[39] **Professor Holtham:** I think that's quite likely to happen, yes, especially businesses that are here partly or wholly because of our position within the European Union. You must then expect those businesses to hold off. Maybe there are businesses here for other reasons, or that are focused on other markets. It may then be possible to encourage those to expand, but a large part of foreign investment in the UK is here because of the role we have, or had, within the European Union. I don't see it's very realistic to expect them to expand their operations until they get clarity on what's going to happen.

14:00

[40] **David Rees:** Thank you. Dawn, do you want to ask your question on EU funding?

[41] **Dawn Bowden:** Yes. On the post-Brexit funding situation that we're

likely to be faced with in Wales, you've made your views very clear on the fact that you believe that, post Brexit, it's going to be very difficult for Wales to maintain the same level of funding that it currently receives, so, increased funding is unlikely. That was your view pre Brexit; I just wondered whether that is still your view, and if it is, what do you think that Welsh Government really needs to be doing to try to work towards a situation where that is not going to be the case? I say that in the context of you, obviously, going back as far as 2010, when you talked about the need to revise the Barnett formula—you were saying then that, basically, Wales wasn't getting its fair share, so, presumably, we'd have to be looking at something post Barnett formula. But what more do you think Wales needs to be doing?

[42] **Professor Holtham:** This is actually a difficult situation, because the bad news is that, at the time we did the report in 2010, we were able to point to Wales getting 3 per cent or 4 per cent less than it should have been getting by English comparisons. Nobody's wanted to update that work, because they were all afraid of what it might show. As far as I can see from a rather rough-and-ready updating of it, Wales is no longer significantly underfunded. We are now getting something like 116 per cent of the English average expenditure per head, and that was in the ballpark of the number we said was appropriate. When we did the report, we thought we were getting about 112 per cent. So, Wales has gone up—not entirely sure why that is. I think it's partly just the effect of austerity, because the Barnett formula works symmetrically: when you're going up, you lag behind, when you're going down, you'll still lag behind, and that's good. So, we're not seriously underfunded.

[43] The issue, though, is that the UK Government doesn't have an explicit regional policy. It outsourced it, in effect, to the EU, and we have been getting €300 million a year or roughly thereabouts from the EU structural funds and other things that have supplemented our capital budget. Three hundred million euros a year doesn't sound a lot—it's only 2 per cent of the Welsh budget—but it's about 20 per cent of the Welsh capital budget. So, it makes a contribution there. So, I think, if we've got a case, it's that we need to look at the capital expenditure possibilities of the regions: 'We've been getting this under the existing dispensation, and you ought to have a regional policy if we're leaving the EU. Whatever it is, it ought to give us roughly this kind of money.' I think that's what we should be claiming.

[44] The noises coming out of the UK Government haven't been entirely encouraging. I think Alan Cairns said, 'Well, you'll get something,' but he

more or less said in terms that it was going to be less, which I think you must expect, because no Conservative Government has been very interested in regional policy, apart from the talk about the Northern Powerhouse, for the last 30 years. If they do decide to implement one, there'll be competition. Cumberland, the north-east and south Yorkshire will all say, 'Where's our share?'—none of whom, by the way, are level 1 regions according to the EU. So, I think the chances of Wales getting anything like the same money are really just remote.

[45] But I think we can argue that we are suffering a clear decline in resources available for no reason other than that the British—. The trouble is our own people voted for it. If we were in the Scottish position, we'd say, 'Oh, we didn't vote for it and look what's happening to us.' We'd be in a better place. But, unfortunately, we didn't. But we can still make the case that, as a result of this, we will be worse off for this specific reason.

[46] **Dawn Bowden:** I think that's a fair point. I've said previously that those of us who were very pro-European and pro the EU—we have to live with the vote as it was and make sure that we get the best deal from it for the people that we represent. But you don't seem to be presenting any rosy prospects. Are there any other angles that we could be looking at? Is there any way that you can see in which Wales could actually be financially better off if we went in a different direction? Under the Brexit settlement, Professor, I'm talking about.

[47] **Professor Holtham:** I know that the Welsh Government has been encouraging parts of Wales—I think south-west Wales mainly—to form agreements with Irish regions. This actually is a way to access European money. There are regions in Norway, for example, that have joint plans with regions in Sweden, and Sweden gets structural funds. So, the joint region can put a plan together that means that some of the EU money ends up in the Norwegian region. I don't know how significant this could be—probably not huge—but if south-east Ireland and south-west Wales had a plan for improving communications, or whatever, they might get EU money. So, I think I would look very hard at that back door—and maybe Holyhead and, I don't know, somewhere in Ireland. That would be one thing you could try and do. Otherwise, where are we going to raise the win? It's objectively difficult. The problem is that the UK public finances are not in terrific shape. If we have a period of slow growth, they'll be in worse shape and we'll be competing with other demands—you know, the Northern Powerhouse and all the rest of it. I don't want to sound unnecessarily gloomy, but it's going to

be a tough negotiating situation. We've obviously got a case that we're losing a lot of money, and they ought to make some of it good. But I don't know—I wouldn't put my own house on us getting all of it back.

[48] **Dawn Bowden:** Okay. Thank you.

[49] **David Rees:** Michelle.

[50] **Michelle Brown:** Thank you, Chair. You've said that Wales will be unlikely to receive the levels of regional funding from the UK Government that it currently receives from the EU. The moneys that we receive from the EU aren't set in stone now, are they?

[51] **Professor Holtham:** No, that's true.

[52] **Michelle Brown:** They're only set for a certain amount of time.

[53] **Professor Holtham:** Absolutely right. Yes.

[54] **Michelle Brown:** So, where are your guarantees that we're going to continue receiving moneys—?

[55] **Professor Holtham:** That's a perfectly fair point. It's not clear how much we're really losing relative to what we would have been getting after 2020. We may well have been getting a lot less anyway as a result of EU enlargement and a recalibration of their effort. That's a perfectly fair point. So, how much we lose relative to that may not be that great, but all I'm saying is: we're going to lose relative to what we have been getting in the past.

[56] **Michelle Brown:** There's still a lot of uncertainty once the present funding arrangements come to a close, though, isn't there?

[57] **Professor Holtham:** Yes, indeed.

[58] **Michelle Brown:** The EU is constantly changing, as we know. There's a constant drive to expand the EU. There have been problems in the eurozone. The EU itself is facing a lot of financial pressures itself. What impact, do you think, that is going to have on Wales and the likelihood of continued funding anyway from the EU?

[59] **Professor Holtham:** We're getting into quite deep counterfactuals. If Brexit were not happening and Wales were going to be receiving EU money after 2020 it's, as you say, perfectly likely that we wouldn't be getting as much as we get at the moment. If we weren't leaving the EU, the pressures on the EU would be less than they are. I think Brexit doesn't help the stability of the EU. I don't think there'd be the same pressures. I think the way that the European monetary union operates has caused macro-economic strains and problems within the EU, and there's no early sign of that changing. So, I think the EU is stuck in the same slow-growth pattern as much as the rest of the world.

[60] **Michelle Brown:** Okay. Thank you.

[61] **David Rees:** We are scheduled to leave the EU, so, post 2020, what may or may not have come to us is really not our concern at this point in time, is it? Because we need to look at how we deal with our position post Brexit, effectively. Eluned, do you want to raise a point on this?

[62] **Eluned Morgan:** Yes. Isn't it fair to say that we would have gained transitional funding from ending being part of the convergence regions? So we can say absolutely assuredly that that money would have been coming. It might not have been full convergence, but there would have been a transitional phase, which should help our negotiating position with the UK Government—or not.

[63] **Professor Holtham:** Indeed. I found it was quite easy to make logical points against the UK Government, but it wasn't always easy to make them listen. Unfortunately, these things tend to come down to a political horse-trade as much as—. It's good to have right on your side, but it doesn't always mean you'll win the argument.

[64] **David Rees:** Mark, do you want to come in as well?

[65] **Mark Isherwood:** There's also a question about where the money goes, which we would welcome your view on. Over the weekend we heard that the Chancellor is going to announce more money for infrastructure spending, and we're told that Wales will get tens of millions, but presumably under Barnett. This morning, the Prime Minister announced £2 billion a year by 2020 for scientific research. Presumably that will come to Wales on a Barnettised basis. We know the UK Government's previous Chancellor made an offering to north Wales for the north Wales growth deal. But that's

dependent upon joint working with the Welsh Government in terms of the calls from the North Wales Economic Ambition Board for internal devolution, as is happening with the Northern Powerhouse in England. But in terms of formulae and how we operate after Brexit, to what extent should the moneys be coming to the Welsh Government, to what extent should the moneys be distributed and prioritised by the UK Government distribution through Barnett, and to what extent should this be done through some sort of joint mechanism?

[66] **Professor Holtham:** I think that raises a really interesting question. One of the developments in UK public finances in recent years has been a tendency for central Government to allocate funds—within England I mean, now—on the basis almost of competitive tender, rather than on the basis of a needs-based formula. So, we used to have a needs-based formula for education. Now, people can set up their own school, and as long as the Minister for education thinks it's okay, a certain amount of money will flow. With things like city deals, you have to elect a mayor and come up with a good plan and they give you some money. So, there's quite a lot of money now being directed to regions as a result of a horse-trade between some agent in the region and central Government. That's money that, in the past, would have been distributed according to a needs-based formula, the sort of thing that we were mimicking when we said 'Barnett should look more like this'. Now, if that goes on, I think it means that Wales does get into a situation where it has to be sharp-elbowed and be competing for those sorts of funds, whether that's done through the Welsh Government or through local authorities or whatever agent the central Government is looking to. This may become more necessary if public finance continues to develop in that way. So, things like the city deal for example—there's a Cardiff city deal being mooted and it depends on us, or Cardiff, producing adequate plans, and if the plans then don't meet their key performance indicators, you've got to give the money back, apparently. So, it certainly complicates things, and it means that Wales as a country has to be aware of that and develop the capabilities to compete for those sorts of funds where they're available. Sometimes this may cause political problems, because if we don't like fragmentation of education, or things like that, and we're not ready to compete in the way that the British Government would like, we may be denying ourselves access to those funds. I'm not saying that's good or bad, but it just may be the case.

[67] **David Rees:** Thank you. Eluned on transitional arrangements.

[68] **Eluned Morgan:** I think we've touched on transitional arrangements already. I wanted to talk about the impact of Brexit on the rural economy in Wales. There's a suggestion by the First Minister that about 20 per cent of the common agriculture policy funding that comes to the UK comes to Wales, and under Barnett we'd just get 5 per cent of that. Is that something that you would recognise?

14:15

[69] **Professor Holtham:** No, I'm not sure it is. I think I'd need notice of the question; I'm not sure I'm fully able to answer this with authority. My impression was not that the CAP money was a centralised payment to the Ministry for agriculture and it was then subject to a Barnett formula—it's much more direct than that. So, I don't know exactly why the First Minister would've said what he said. But I do think it's an issue for Wales, because I would think that it's more likely that a UK Government, especially one of a Conservative kind, would look after farm incomes and would probably be more careful about doing that than it is about regional policy. That said, whether the particular form that farm support takes, post Brexit, would give Wales as much as it gets now, isn't so clear. If it all ends up with well-to-do cereal farmers in East Anglia, it doesn't help Welsh hill farmers. I'm not across this; I don't know what conversations are going on in Whitehall, but I would be concerned that, yes, they're likely to keep looking after farmers, but are they likely to keep looking after poor hill farmers? That's the question that I think we would have to be—

[70] **David Rees:** I think, to be fair to the First Minister, his interpretation was that, under the current arrangements, the amount of money coming to Welsh agriculture from the EU made up 20 per cent of the total that the UK got—not that the UK distributed it, but it came from Europe. But, if it was centralised, and came from London, under the Barnett formula process, we would lose out because there would be less funding coming as a consequence—it would be 5 per cent of an agriculture-type approach. I think that's what he was trying to get at.

[71] **Professor Holtham:** Ah. Okay. The point about that is, of course, when you give a new area of authority to a devolved administration, there's an initial horse trade as to how much you get. Don't forget, the Barnett formula just works on increment: this is the extra that we get this year, so you get the same extra per head. It doesn't tackle the issue of why you get what you get. Barnett just shrugs about that. So, when you get a whole new area of

authority, that's when you have to make the case, as the Scots have done very successfully, historically, in saying, 'Okay, well, we got 20 per cent, so we should get 20 per cent. That's what we start with'. After that, the increment will be driven by Barnett. But you've got to do the initial horse trade to get the right initial amount. That's not determined by Barnett; that will be determined by an ad-hoc negotiation at the time they say, 'Okay, you're responsible for your own agricultural support now', and the next question is, 'Yes, okay. How much are you going to give us for it?' I mean, that's the—.

[72] **Eluned Morgan:** That's good. Thank you for clarifying that so that we're clear about that. You mentioned the city regions and, potentially, the need for investment in the north Wales coast. I think what's interesting about the CAP development and the potential for change there is that, actually, what's happening there is that you're taking money out of the rural communities, whereas the money that would come via structural funds is additional money. I just wondered, in terms of restructuring the rural economy, if this is an opportunity for us to rethink how we look at the rural economy in Wales.

[73] **Professor Holtham:** I think it's really very difficult. We were saying earlier, or I was saying earlier, that there isn't, in my opinion, a very clear economic development strategy in Wales. If there were, I think it would have to consider what the growth poles were within the economy, how many it made sense to try and have and where they should be located. We've got—was it 13? Sorry, I'm having a senior moment. What do you call those development areas? You set up an area—

[74] **Eluned Morgan:** Enterprise zones.

[75] **Professor Holtham:** Enterprise zones, thank you. We've got about 13 of those and nothing's happening in at least half of them. So, I think one has to be a little bit hard-nosed. It's very difficult for a democratic politician. You've got to be fairly hard-nosed and say, 'We can't have one in every parish. We've got to make some hard decisions'. I do think that, obviously, there should be some growth poles that are relevant to north and central Wales, but how many there would be, I think, is a matter for research.

[76] **Eluned Morgan:** You've already mentioned the impact of Trump's election on interest rates. Is there anything else we should be concerned about—well, there's a lot we should be concerned about, obviously—in

relation to Trump's election? But the impact on Wales—how is that likely to impact on us, besides interest rates?

[77] **Professor Holtham:** It's hard to see. Apart from the interest rate thing, it's hard to see anything that's specific to Wales. Most of the impacts of President-elect Trump's policies, such as we understand them, would be very general, and Wales would take its share of the effects. But I can't, offhand, see things that are absolutely specific to Wales. I do think we're likely to be into a regime of rising interest rates, and that is going to bring to an end a period of opportunity that we have not exploited.

[78] **David Rees:** Can I expand upon that a little? The rumours we've been hearing are that, clearly, he's looking to be more protectionist and protect the American economy, and the consequence is that there'll be trade arrangements that he will want to renegotiate. You've just highlighted that we've got some interesting businesses now working with the third-world countries. Is there a possibility that that could become more competitive, because previous partners with the US will now be looking elsewhere?

[79] **Professor Holtham:** One of the issues about us negotiating trade agreements with the United States, or indeed any other country, is that we first of all have to decide whether we're in or out of the European customs union, which isn't the same thing as the single market. I mean, the Turks aren't in the single market, but they're in the customs union. If you're in the customs union, you have to impose a uniform external tariff on those goods for which a tariff has been declared. So, only if you leave the customs union will you have the complete freedom to negotiate anything you like with anybody you like. But, of course, that's a big step, because that means that, immediately, if you're out of the customs union, you are certainly in danger, unless you can negotiate very specific deals, of having to pay tariffs on your exports into Europe. So, leaving the customs union: are we going to do it or not? That is one of the big uncertainties, I think, in the situation. Only if we do can we negotiate detailed bilateral arrangements. We'd have to negotiate them with all of the countries that we currently have arrangements with by virtue of being in the EU, which is why they're talking about having to hire another 30,000 civil servants.

[80] I imagine the status quo would be, 'Look, can we just keep it as it is until we negotiate something else?' That would be the sensible way to proceed. It may be that, politically, the North American countries would be ready to pay attention to the UK quite quickly—I don't know. But you're

certainly talking of a couple of years at least to negotiate something.

[81] The other issue is: what do we do in the meantime? There's a strong school of thought—well, Patrick Minford of this city is on the record as arguing that we should just abolish all import tariffs ourselves and have complete unilateral free trade so that anything can come in. You can show that, if you do that, the cost of living falls and consumers are all better off, or at least those of them who haven't lost their job, because we're not producing anything domestically anymore.

[82] So, there are very big uncertainties. It's very difficult to know what to say. Are we going to be in the customs union? If we're not, are we going to have any sort of unilateral free trade or are we going to wait until we've negotiated specific deals with different countries? These three things give you three very different outcomes.

[83] **David Rees:** Thank you. Steffan.

[84] **Steffan Lewis:** Thank you, Chair. You've mentioned the differentiated approach to the single market, but you've gone down the route of looking at individual sectors and the possibility of applying different arrangements between the EU and the UK on individual sectors of the economy. Do you think that is a more worthwhile approach from a Welsh perspective than the differentiated approach that's tried to be mooted politically, which is that the nations of the UK should look to have different relations? Are we better off, in your view, trying to build coalitions around sectors to achieve greater terms, or are we better off trying to build political coalitions around each nation having a slightly different relationship with the single market?

[85] **Professor Holtham:** I would say the former, because the trouble with the latter is: how do you—? Neither we, nor for that matter Scotland, want to leave a single market within the UK, nor do we wish to impede freedom of movement of people within the UK. So, logically, how can you have a situation where either Scotland or Wales has an arrangement with the EU that England doesn't have? This is the Northern Ireland problem: they don't want to have a border, but, on the other hand, they want to have a border. It takes somebody cleverer than me to work out how to get out of that one; it's a logical impasse.

[86] **Steffan Lewis:** Well, one approach would be for the UK in its entirety to leave the customs union, but for the subnational entities, or the sub-state

entities, to be associate members of the single market.

[87] **Professor Holtham:** But then that would mean that they'd have to accept—. Well, there are several dimensions to that. Let's take one of them, which is migration. They are then supposed to have freedom of movement of people, yet how can you have freedom of movement of people between the EU and Wales, freedom of movement of people between Wales and England, and not free movement of people between England and the EU?

[88] **Steffan Lewis:** Well, presumably, because it'll be on Norwegian terms, which is free movement of labour not of people, and therefore you could only work in Wales if you have a Welsh tax code, which wouldn't be something that you could use in England. But I just wanted to get to the—. I don't want to drill into the details of how it would operate, but—

[89] **Professor Holtham:** I think the thing is, if the English electorate and politicians are ready to accept that, they could probably accept some sort of deal that kept them in the EU, or at least within the single market. It doesn't sound very different from saying, 'Okay, we'll stay in the single market.' Because, in effect, you don't have control of your border, as it were. It's all very well saying, 'Well, they're not supposed to work in England if they've got a Welsh tax code', but 300,000 people cross that border every day—no, 150,000 every day—to work on one side or the other. You couldn't police it.

[90] **Steffan Lewis:** We won't speculate on that, but I think probably the Irish question, along their border, might provide us with creative outcomes that we're not anticipating now. What I want to get at is: from Wales's point of view, you rightly touched on the fact that Wales voted the way it did, therefore, our political leverage isn't the same as Scotland's and Northern Ireland's. In which case, should the Welsh Government's approach, vis-à-vis the UK Government, be more about looking for economic concessions for Wales, rather than constitutional or political ones? So, for example, I think it's been quite interesting from Northern Ireland that one of the things that they've been calling for is for the whole of Northern Ireland to be made a UK enterprise zone. That gives them fiscal levers, potentially enhanced resources for infrastructure, whilst then putting the constitutional stuff into second place. Is that the kind of—? Should we be trying to emulate that approach, making it harder for the UK Government to say no to what would appear more reasonable demands than the political and constitutional considerations?

[91] **Professor Holtham:** I do think there's something in that. I think we should be thinking very carefully about what we want that we could reasonably extract from them, and focusing on achieving that in negotiations. One that springs to my mind is, at the moment, for example, if Finance Wales borrows money from a British bank and lends it to a private company, that's Welsh Government expenditure. Now, I'd say to the Treasury, 'Look, chum, do me a favour, we're just going to lose £300 million a year, you're not going to give us the money, are you? Well, then, why don't we just take Finance Wales outside the Welsh Government departmental expenditure limit and classify it as a self-financed public corporation and it's not part of the Welsh Government's DEL?' I think there are things like that that we should be arguing for, because this isn't Government expenditure; this is a business with its own balance sheet that is lending to private sector companies, and we need it to do so, and we don't need it to be constrained by the Welsh Government's budget. That's just an example, but I think there are things like that that we should be drawing up, using our imagination, and thinking up things that we could reasonably demand and then demanding them. Because we are going to take a hit here as a result of this, and they're not going to give us the money, so they should cut us some slack in various areas, and I think that's one.

[92] **Steffan Lewis:** Thank you.

[93] **Eluned Morgan:** Any other good ideas like that? [*Laughter.*]_That's a good one.

14:30

[94] **Professor Holtham:** Yes, I did have a few but I've forgotten what they are now.

[95] **Eluned Morgan:** Can you send them to us?

[96] **Professor Holtham:** I'll send you a note, yes.

[97] **Eluned Morgan:** That would be great, yes.

[98] **David Rees:** You're welcome to send us a note on those. Mark.

[99] **Mark Isherwood:** Just a very short one: is it not the case, following on from Steffan's questions, that there are precedents for territories within the

EU and non-EU territories to trade within the single market to a lesser or greater degree, and not be members of the customs union?

[100] **Professor Holtham:** There are some things like countries outside the EU having passport rights, for example, for a financial institution so that they can sell their services into the EU. But I don't know enough about the phenomenon you're referring to.

[101] **Mark Isherwood:** I understand Gibraltar, for example, might be an example of a territory, and I believe Switzerland might be an example, if I'm correct, of a state.

[102] **Professor Holtham:** Well, Switzerland has a specific deal with the EU, which, actually, originally included freedom of movement. Then they had a referendum that said that they didn't want to have freedom of movement, and now they're in a long and protracted discussion with the EU about how to square that particular circle. But, yes, they had access to the single market, but they had very specific—. I mean, they're in the European—

[103] **Mark Isherwood:** EFTA, not EEA.

[104] **Professor Holtham:** Yes.

[105] **David Rees:** Thank you. Just a final point from myself: you've obviously highlighted and called for perhaps a Brexit Minister within the Welsh Government before now. The First Minister has appointed Mark Drakeford to represent him on the Joint Ministerial Committee. Do you still think there is a need for a specific Brexit Minister, or will that arrangement deliver what you believe is important?

[106] **Professor Holtham:** I don't really know, Chair, but I would have thought that there was some requirement for focus here, because this is so multistranded; there are so many potential issues. It's not just trade, foreign investment and regulation. What regulations will fall away with Brexit, depending on the form of Brexit? What will the British Government do about them? Will it change the rules on state aid, for example, and enable us to have a more active industrial policy or not? Migration. There are just, you know—. There are five or six completely different areas with all sorts of considerations that span most Government departments, and I would have thought it's a fairly substantial job to pull that together and make sure that we are not taken by surprise, or miss a trick in these negotiations. So, I

would have thought that was certainly worth being the responsibility of a fairly substantial Minister, but I wouldn't say it's impossible to do it any other way. It certainly is going to require quite a lot of focus.

[107] Historically, the Welsh Government has been rather—. How can I put this? Each ministry has tended to operate its own policy quite strongly, and things that need to happen, if they can happen within a ministry, tend to happen. If they require co-operation across ministries, they either don't happen or happen much more slowly. And with that historical background, I would have said, 'Well, this is something we don't want to not happen.'

[108] **David Rees:** So, history is silo-orientated rather than cross-cutting. Okay, thank you. The time is up, so can I thank you very much for your evidence this afternoon? You will receive a copy of the transcript. If you identify any factual inaccuracies, please let us know as soon as possible. So, once again, thank you for attending today.

[109] **Professor Holtham:** Thank you.

[110] **David Rees:** I suggest we have a 15-minute break, and reconvene at 2.45 p.m. It's a 10-minute break—we'll reconvene at 2.45 p.m. Thank you.

*Gohiriwyd y cyfarfod rhwng 14:34 a 14:45.
The meeting adjourned between 14:34 and 14:45.*

**Gadael yr Undeb Ewropeaidd: y Goblygiadau i Gymru—Dull ar gyfer y
Trafodaethau
Leaving the European Union: Implications for Wales—Approaches to
the Negotiations**

[111] **David Rees:** Can I welcome Members back to this afternoon's session of the External Affairs and Additional Legislation Committee? We're continuing to take our evidence on the implications of the decision to leave the EU for Wales. To this afternoon's next session, can I welcome Professor Peter Halligan from the Learned Society of Wales and Sir Emyr Jones Parry, a former diplomat and former ambassador to the United Nations, but has also undertaken work on behalf of the Government in relation to extra additional powers in Wales? Can I welcome you both to this afternoon's session?

[112] Perhaps I can ask the first question. Clearly, we had evidence a couple

of weeks ago, when Professor Scully indicated that Wales should focus on a couple of areas in its negotiations, but also that, perhaps, Wales's leverage was limited. In light of that, where do you see the place of the Welsh Government in those negotiations, both negotiations that are being undertaken with the EU, but also negotiations that will be undertaken within the UK as to some of the arrangements post Brexit?

[113] **Syr Emyr Jones Parry:** Diolch yn fawr iawn am eich croeso. **Sir Emyr Jones Parry:** Thank you very much for your welcome.

[114] Chair, thank you. Can I start, perhaps, by just setting out—? When you talk about negotiations, let me quickly summarise what the negotiations are, as far as I can see. They're the most complex and the most difficult that any British Government has tried to do since at least 1945. Firstly, to negotiate withdrawal, when article 50 is triggered, and what's going to be covered, it's very murky, but it includes: the question of acquired rights for individuals and companies—what the Vienna convention sets out; transitional arrangements; the legitimate expectations of business and of individuals, county councils, whatever, in terms of receipts of money; shared liabilities and how those are divided between the EU and the UK, and the transfer of regulatory and policing responsibilities. I don't mean 'policing' in the sense of police, but those regulatory aspects on environment, authorisation of pharmaceuticals, genetically modified organisms—different things like that. They've all got to be sorted out. That's No. 1.

[115] The second is to unscramble EU legislation in the UK. As far as directives are concerned, either in Westminster or in the devolved legislatures, directives have been implemented and will remain part of the body of law of the United Kingdom. But I reckon one third of EU legislation in the UK is what we call 'direct effect'—regulations passed in Brussels, often just by the Commission, which have direct effect. There is no legislation required, but they're part of the law. As soon as we leave the European Union, they're no longer part of our law, but they do cover essential activity that needs to be regulated. So, once those have been identified, we have to put in place substitute legislation to cover it, and there's an awful lot of it.

[116] You've got to put in place substitute policies—thirdly—for those things like agriculture, where it's now done through the common agricultural policy. But they need to put in place substitute activities and, of course, to take account of devolved competencies. We have to negotiate, crucially, the future arrangements with the European Union.

[117] The next one is to negotiate third-country agreements, trade agreements. Fifty-four of those, currently, are for the United Kingdom through EU agreements with each of those 54 countries. There are 54 individual negotiations to take place. And if that weren't enough, given that, in a perfect world, you'd do all those so that the moment you left there'd be no limbo and you'd go straight into those other things, as that's pretty well impossible, there will be a need for some form of transition arrangements to take you from where we are now to the state that we want to be in. That's the challenge.

[118] I'd just point out that the article 50 negotiation will be agreed by a qualified majority, but the moment we go into future arrangements, they will require, almost certainly, unanimity among the member states. That's the scale of the challenge that confronts us. The issues are incredibly interlinked in putting in place access to a market, what it means for your external trade arrangements, and when you're sorting out agriculture domestically, what it means for your freedom internationally. So, finding out what the overall strategy should be, what the United Kingdom interests are, and how you fulfil those across that myriad of arrangements, that's the challenge. And at the same time, you've got devolution, devolved responsibilities to three nations, and the real risk, it seems to me, of a constitutional impasse, and even the future of the United Kingdom, as it is, brought into question by the complexity and the political tensions. That's the scale of what's involved.

[119] **David Rees:** What level of influence do you believe the Welsh Government is able to exert in those negotiations to ensure that the interests of Wales are not lost in that process?

[120] **Sir Emyr Jones Parry:** Shall I start then, Chair, with why Wales ought to be involved? The Government of Wales Acts and the Government of Scotland Acts presuppose that competencies are devolved in such a way that, whatever the scenario, Westminster retains control of foreign affairs and defence. If I were talking about relations with Iran, or future accession of countries to NATO, it's fine—that's Westminster. But what today is foreign affairs, and what is domestic, becomes exceedingly difficult to say. We've all been brought up on the idea that sovereignty is vested in Westminster and the monarchy, except that sovereignty is no longer absolute internationally. There's a figment that, somehow, brave old Blighty will be sovereign and can do what it wishes. Life is not like that, as we've seen, and if I just quote the NATO treaty, or what happens in the market with sterling, we know the limits

on our own sovereignty. But there's a limit on our domestic sovereignty, because sovereignty, I think, has been created for Scotland, Wales and Northern Ireland by successive referenda. It's no longer simply the case to say, 'Well, Westminster can actually just rescind the Government of Wales Act.' It could, in theory, but I think it's an impossibility in today's world.

[121] So, sovereignty is mixed, but what is external policy? The common agricultural policy at the moment is all handled in Brussels. It's a devolved responsibility in Wales, exclusively. There are all sorts of other aspects within the 21 subjects that Wales has authority over. If I follow the logic of politics, Wales must have a right to be heard. My personal wish is that that voice were heard more strongly and more clearly, and had influence. But there's a practical argument, of course, because what is sorted out in any external negotiation conducted by the British Government has a direct impact on what happens in Wales, or in Scotland or in Northern Ireland. So, there's a practical point. But, of course, there have been successive undertakings by Government that Westminster will not legislate without the consent of devolved administrations where the legislation impinges on the competencies devolved to that nation. Now, that's normally a sensible relation, and, occasionally, it's in everybody's interest that Westminster should, but this may not be such a case. Who knows? What is clear is, in determining whether you want Westminster to legislate, you've got to have an opportunity to have your voice heard and to influence the outcome.

[122] I think there's a logic, too, in what the High Court said recently, that, if Government couldn't take Executive action that impinged on laws affecting citizens, I suspect, in the Supreme Court's consideration of the same case, the same principle might be adduced to say that Government shouldn't, and indeed probably Westminster shouldn't, legislate where something would impinge directly on the laws within a nation. So, put all that together and it seems to me that the case for getting involved is irresistible. The problem at the Westminster end will be that, as we've seen on the Wales Bill and generally the way devolution is handled, at least in respect of Wales, there is a reluctance to hand over power and there isn't, in my view, adequate recognition of what has been devolved, and not enough attention given to Welsh affairs. I say that with some experience of Whitehall. It's certainly the case that, in terms of the Wales Bill, to put it unkindly, the rats have got at the legislation and have inhibited all sorts of things that might otherwise have been there to make it a more coherent bit of legislation.

[123] So, how is this Welsh voice to be heard? The JMC machinery was

designed for another purpose, designed—can I be unkind and say more as a talking shop, as an exchange of information, certainly not as a decision-making body with powers? So, is that the body actually for Wales to seek to influence what's happening? I think it has a role. It's never a bad thing for the First Minister or one of his Ministers to go to that body and set out the arguments, but what is the effect? I'd much rather if there were Cabinet Office machinery looking after these various negotiations and that Wales were plugged into it. There are a number of difficulties with that, not least that there doesn't seem to be such a Cabinet Office machinery.

[124] Certainly, the situation 20 years ago, in terms of influencing the preparation of EU objectives, what the British Government would negotiate, Whitehall met under Cabinet Office auspices and firstly the Welsh Office and then the Wales Government were involved in that process. I'm not aware that there's such a process clearly established within the Cabinet Office. It's certainly the case that, for the big decisions, it's the Prime Minister that's taking them, but the structure below, as far as I can see, is a little bit opaque. No-one has shared this in detail with me.

[125] **David Rees:** Can I clarify? The picture you're painting is one where you believe, in your view, that the Whitehall machinery is not established to actually get involved in decisions and discussions in relation to this.

[126] **Sir Emyr Jones Parry:** I'll come to what I think the machinery is, Chair, and that is that there's a loose co-ordination from the Cabinet Office but there's a distinct lead by the Department for Exiting the European Union. There are a series of ad-hoc—I'll call them ad-hoc—groups, subject led, and most of them are chaired by the department for Brexit. In the case of the budget, it's a joint committee between the Treasury and Brexit and, not to be left out, the Department for International Trade leads on one group, which has to do with international trade. But who's got the right of initiative? How are those papers that are circulated, how are they brought together? How is overall strategy to be set out? It takes me to what I said at the very beginning: that's the challenge for Government. Who's going to write such a paper? Who can draft it and present something that is sufficiently coherent to cover all our interests as we leave the European Union?

[127] So, the challenge is: how do you fit into that? My answer is, very simply, hold the Prime Minister to account—she's said that we would be involved—and, secondly, try and insinuate officials into the preparation of those papers, and, if you can't do that, make sure that the bilateral contacts

with all the people who are leading, and the other members of the groups, that those are intensified and take place all the time.

15:00

[128] **David Rees:** Thank you. Steff.

[129] **Steffan Lewis:** Picking up on that theme, I wonder if the days of the Cabinet Office doing such things has gone and that now we need to be looking for the JMC-EN—the specific sub-committee on European negotiations—to turn itself into a form of UK Council of Ministers, ironically, in order to accommodate the process and negotiation between the Governments of the UK before they get into proper negotiations with the EU.

[130] It seems to me that, in discussions with people on the continent and others, because this is unprecedented, we're going to have to think creatively. Wouldn't it make more sense for there to be a UK Council of Ministers now to do a session in reverse, I suppose, so that their job would be to go through European directives and treaties and work out between them what the wants of each Government are and then for us to apply that session-in-reverse model then during the article 50 negotiations so that there is a clear treaty by treaty, issue by issue, examination of what that future relationship—. But you need to do it internally within the UK before you can go and do it between the UK and the EU, otherwise, we'll end up with the constitutional problems that you've identified.

[131] **Sir Emyr Jones Parry:** I think in the case of looking at what happens to existing EU legislation, there's a very strong case for the four nations, in whatever body it is, working together. A simple example would be agriculture. The First Minister here has, I think very sensibly, said there should be common rules for health standards of animals. The immediate reaction in Scotland was, 'We're not giving any more powers back'. Actually, a sensible reaction would have been to have said, 'We've got the power everybody else has, but let's work together and collectively agree what we're going to do.' But that only applies to one of the six or seven bits that I mentioned.

[132] If you're talking about a Council of Ministers to predetermine what the negotiation position is, one political reality is that there's enough difficulty for the Government in trying to work out what its strategy is, but are they really going to share that power? Is the job of the Council of Ministers

advisory or determinant? And there's the clear problem that the Welsh interest is distinct from the Scottish interest and I suspect, in Whitehall, there'd be a very strong reluctance to share details with an administration whose objective may not be shared by three other legislatures.

[133] **Steffan Lewis:** Or anyone else for that matter, which brings us to the point, again, of: we can speculate and attempt to suggest processes by which the nations of the UK can be accommodated, but eventually this is going to be seen as a matter for the UK Government and, when it comes to disagreements, they will decide the position themselves unilaterally, probably, on a number of issues.

[134] Going back to—you partially quoted the Sewel convention earlier on, that Westminster doesn't legislate on devolved matters—

[135] **Sir Emyr Jones Parry:** Under normal circumstances.

[136] **Steffan Lewis:** Yes, that's the crucial word, 'normally'. Is it your view that, given that this is foreign affairs or international trade, and falls under those two categories, when the cookie crumbles, Westminster will be able to say, 'Well, this isn't normal; these aren't normal circumstances and we are going to legislate as a UK Parliament unilaterally', or the Government of the UK will act unilaterally—you know, consulting, and we'll have nice discussions, I'm sure, at Downing Street and the JMC, but, essentially, these aren't normal circumstances and therefore the UK Government must exercise its sovereignty and the sovereignty of its Parliament?

[137] **Sir Emyr Jones Parry:** I think that will be the instinct in Whitehall. To give you an example: if, whatever is negotiated in an international trade agreement, because, if it is going to be World Trade Organisation-compatible, it will have to cover agriculture, the terms of that agreement are such that they then inhibit the powers delegated to Wales to run its own agricultural policies, there's a straight conflict. If you want to walk into that, Westminster—. I ended with a warning of the constitutional implications of this. The stakes involved here are massive. They're massive for the future of the kingdom. Of that there is no question. So, it behoves everybody, I think, to be rather more responsible than they've been. And it's not the time for slogans; it's not the time for buffoonery. It's time, actually, to sit down and work out what the real interests of the UK and its nations are, and how they're going to be actually pursued. Because it's going to be a very difficult negotiation.

[138] **Steffan Lewis:** Thank you.

[139] **David Rees:** Dawn.

[140] **Dawn Bowden:** Yes, it was just following on from that and everything that you've said, which I think made a few of us think, 'Ooh'. We kind of all knew it was going to be difficult, but some of the things that I think you've highlighted have certainly made me sit up and think twice about it. I just wanted your view, really, then, on—. Going forward now, we've had the Supreme Court judgment, which is saying that Wales can intervene in the Supreme Court hearing, but is it your view, then, that really, the UK Government needs to take a step back? The Prime Minister has indicated that article 50 will be triggered by March. She may now be hoist on her own petard on that one, and burnt all the bridges—and any other metaphor that you want to say—because it does seem very clear, does it not, that, if we trigger article 50 in March, this is not going to be resolved in two years and we face a real danger of having no agreement at the end of two years.

[141] **Sir Emyr Jones Parry:** That's the disaster scenario. I touched on the fact that there may be transitional arrangements. There are some, of course, who argue that it's very simple: just go for a tough, hard Brexit, and that's it, and then everything else unfolds. I tried saying that from the beginning to suggest, if you do that, we're going to have an awful lot problems floating around, and they can be very difficult to solve. But, of course, the Prime Minister has been under intense pressure to invoke this article much sooner. I was always of the view that, before you invoke anything of that sort, have some idea what it is you want afterwards. Of course, no-one on the 'leave' side ever said what they wanted afterwards. It was all very simple and slogan-driven. And, of course, on the Government side, they failed totally to make the case for the European Union. I said it to the Treasury select committee, and I'll repeat it now: the political class has done everything possible to bring politics into total disrepute in this country, and those consequences will come home to bite us all in the nature of our democracy. So, this is hard stuff, with very serious implications. But it's possible to see that article 50, if handled well, that the sorts of issues that need to be covered—. I mean, not least everybody in Wales who is looking for money from the structural fund has commitments. What's going to happen in two years, after the invocation? People need some degree of certainty. All those things have to be covered. But I can see how much of this could be done if you were prepared to have some form of transition and then work it out. But

I had a throwaway line, which was that the subsequent arrangements will require unanimity. That's 27 countries and their national Parliaments having to agree. There's quite a feeling out there that they shouldn't make it easy for us because it will encourage other people to leave, and there may be one or two who've got some grudges to bear and will be delighted, actually, to have the opportunity to put a spanner in the works.

[142] But, coming back to article 50, I don't believe it's irrevocable, but, unless it's revoked, the moment you invoke it, two years later you're out, unless there's a qualified majority to extend the period and the European Parliament also agrees. The chances of that, I think, are slight. But the other reason to be careful, of course, is that there are all sorts of elections taking place in continental nations next year, and what we've seen with Brexit and what we've seen in the United States may yet hit the continent. I don't believe it's an Anglo-Saxon phenomenon. So, all this is, I guess, a very tricky international situation as well.

[143] **David Rees:** Thank you. Michelle.

[144] **Michelle Brown:** Thank you, Chair. How much leverage would you say that the Welsh Government has with the UK Government in maximising its opportunities? Because I see this as an opportunity for Wales. There're a lot of powers that are going to be repatriated to the UK—a lot of those areas it would make sense to bring them home to Wales. What kind of leverage do you think the Welsh Government has with UK Government to put that into practice?

[145] **Sir Emyr Jones Parry:** Could I answer that by asking a question first, which is: can you just identify one or two powers that will be patriated from Brussels and which are not already actually in Wales?

[146] **Michelle Brown:** Agricultural policy.

[147] **Sir Emyr Jones Parry:** It's already here.

[148] **Michelle Brown:** But it's dictated, it's regulated by the EU by the common agricultural policy. The Welsh Government can't depart from that common agricultural policy. Post Brexit, we will be able to do so.

[149] **Sir Emyr Jones Parry:** Actually, within the common agricultural policy, the farmers I speak to actually praise the Welsh Government because the

terms—especially in upland farming and various other things—they enjoy under the CAP are more advantageous than those enjoyed by English farmers. The Welsh Government has, historically, done rather well at exerting influence in the CAP. How much influence we have—

[150] **Michelle Brown:** I'm sorry Sir Emyr, I didn't ask you what our leverage was with the EU. What do you think our leverage is with the UK Government right now?

[151] **Sir Emyr Jones Parry:** Right, well I'm trying to say that, historically, the Welsh Government, in agriculture, has done rather well in the UK, because the UK has been negotiating those positions and has delivered quite well for Wales. I'm not overly optimistic in the opportunity that's open to Wales in the present circumstances; partly because it really is so difficult, partly because we haven't done well at exerting our influence historically. I do not see that much positive sign that the Welsh voice and the impact we ought to have will actually come to bear.

[152] **Michelle Brown:** Okay. Can you see any way we could increase our leverage, increase the impact of our voice in Westminster?

[153] **Sir Emyr Jones Parry:** I could. I'd like to see us enshrined in the negotiating machinery, I'd like to see Ministers very actively espousing the case, and that presupposes that, within Wales, we've identified exactly what our interests are and what strategy we would want to pursue. I'm not sure we've been able to do that yet, and not surprisingly, because it's early days and, after all, the British Government has little idea what it wants. But I think one of the tasks that the Welsh Government is engaged in is an inventory of: how does the EU impact on Wales? Looking forward, what are the opportunities? What are the interests that we need to protect and how do we prosecute those? But the idea that Britain will have that much negotiating weight with the rest of the EU, and on its own will do so well externally with the rest of the world, and that Wales within the UK will be able to influence that to our material advantage—I don't share that optimism.

[154] **David Rees:** Can I ask the question then—? You've identified the fact that you think people need to make clear their view and their position. The UK Government has indicated quite clearly that it doesn't believe in opening up the discussion on its position, because it doesn't want to give away its bargaining power. If we're assuming that the Welsh Government will face a similar concept, how are we going to be in a position to identify whether

that's been achieved or not?

[155] **Sir Emyr Jones Parry:** But, Chair, that is one of the most ridiculous arguments around; it really is. If I go and buy a car, and they've advertised the sale at £10,000, I don't say to the man selling, 'Actually, my bottom line is I'll pay £9,800.' I have a negotiation. I don't share the bottom line. But this is not like that. Firstly, there are so many consultations the British Government will have to make, with a vested interest in business, the City, wherever, with the Governments who should be involved. The thought that in analysing those interests and saying, 'Now, what sort of access do we want to the internal market? Do we want any access to the internal market?'—if you're trying to put together a position on that, the thought that you could keep it secret, and, even if you could, that you'd pitch up in Brussels for a negotiation, and then quietly around the table say, 'Shh, we want access'—it's an illusion, because, the moment you said it, everybody would know. But more than that, if you were doing a negotiation properly, you would have been talking to all the member states, trying to get the Germans and the French and others online before you ever got to Brussels. If they don't do that, they're lost. So, they've done all that. The illusion that you can somehow keep it secret is just that. I suspect it covers up the fact that they don't know what the policy is.

15:15

[156] May I come back with one quick point, if I may? Any negotiation is between someone here saying, 'This is what I want' and someone there saying, 'This is what I'm prepared to give you.' At the end, they meet at a time when this side has said, 'I'll give you this much because you're prepared to pay that much', and each side believes there is something in it for them. And that process will have to unfold. But the suggestion that there are absolutes and we're having no free movement and no access—it's an illusion. At the end, there will be a compromise and the compromise will have to cover the interests of those involved.

[157] **David Rees:** Thank you. Jeremy.

[158] **Jeremy Miles:** Roeddech yn sôn **Jeremy Miles:** You did mention earlier yn gynharach am etholiadau sydd yn the elections that are coming up dod lan yn Ewrop dros y flwyddyn across Europe next year. What's your nesaf. Beth yw eich asesiad chi o assessment of the dynamic of those ddeinamig yr etholiadau hynny ar y elections on the way that the

ffordd y bydd y negodi yn chwarae negotiations will play out over the
allan dros y cyfnod nesaf? coming period?

[159] **Sir Emyr Jones Parry:** A dweud **Sir Emyr Jones Parry:** To be honest, I
y gwir, nid wyf yn gwybod. don't know.

[160] If I had a crystal ball, it's a very murky one.

[161] Ond yn sicr, mae pethau mor But one thing I am sure of is that
ansicr, pwy a wŷr? Flwyddyn yn ôl, things are so uncertain, who knows?
pan oeddem yn siarad am Brexit, pwy A year ago, when talking about
fyddai wedi meddwl cael beth Brexit, who would have thought that
ddigwyddodd ym mis Mehefin, a thri we would have seen the result we
mis yn ôl, pwy fyddai'n meddwl y saw in June, and three months ago,
byddai *President-elect* Trump? So, fe who would have thought that we'd
gawn ni weld. have a *President-elect* Trump? So,
we'll have to see.

[162] A lot will depend, Chair, on how free movement strikes in the other
member states. At one level, the Chancellor in Germany has been very
courageous; at another level, she's unleashed something that doesn't have
that much popular support. Will that become a major issue, and if it does,
what does that mean for free movement within the European Union? There
are so many imponderables. Who's going to be elected in France? Are we
going to have a Welsh First Lady in France? It's quite likely, but if we don't,
we may well have a female President in France. If you count, there's an Italian
challenge, there's a Dutch challenge and just watch for the Austrian
presidency coming up. Last time someone was elected from the Freedom
Party, the rest of the EU—the 14—boycotted any discussions bilaterally with
Austria. So, it's very uncertain and in a very uncertain, hostile world, to a
considerable extent out there, if you count what's happening in the middle
east and North Korea, that's a time when we've decided to go and paddle
into the mid-Atlantic.

[163] **David Rees:** Have you finished, Jeremy?

[164] **Jeremy Miles:** Yes. Diolch.

[165] **David Rees:** Mark.

[166] **Mark Isherwood:** Our brief is to hopefully deliver a report, advising the

Welsh Government on the position we feel it needs to take to protect the interests of Wales rather than just our personal, individual opinions, which are for another place. You talked about talking to other states and, of course, the UK Government is. Is it not the case that the EU, quite understandably, has also told the member states that in discussions with the UK Government or UK Governments, they should not divulge their positions or enter into negotiations alone on matters that will have to wait until article 50 has been invoked?

[167] You made a comment earlier about the need to put in substitute measures if, post Brexit, the EU passes measures that would not automatically apply here. Would that not only be the case if the trade deal, which was agreed, required us so to do? Again, is there precedent elsewhere in other agreements that the EU has, both with EEA and EFTA, or more broadly, where that may not apply, at least, in full? And in terms of negotiating position, is it not the case that both sides—? We hear the term ‘hard Brexit’, but we also hear the term ‘hard’ in terms of the EU, and quite understandably, because both sides have to go in with their poker faces, whatever positions they know, out of self-interest, they’re prepared to compromise on. How do we square that need for a poker face with the need for the UK Government to, as you quite rightly say, be mindful and brief well on the implications for the other three Governments and Parliaments? What mechanisms in Westminster therefore exist, or should be introduced, to allow that objective discussion and input without putting the UK Government in a position where its poker face might be compromised?

[168] **Sir Emyr Jones Parry:** You used the phrase ‘the European Union has said that member states shouldn’t’—it’s actually the member states themselves who have decided that, collectively, they wouldn’t engage in pre-negotiation.

[169] **Mark Isherwood:** At EU level they’ve agreed that, yes.

[170] **Sir Emyr Jones Parry:** Or bilaterally. And the reason is very simple: because they don’t want to be picked off. There’s a very strong view that, if they’re positive and helpful to the United Kingdom, it might encourage other nations to emulate the UK. So, you can understand the inertia and the pressures to keep within. The Commission in this has been downright unhelpful. I would discount the Commission as much as possible and try and have negotiations with—well, not negotiations, but discussions with the other member states. Some of the early contacts are not too promising in

that, but actually getting on to have detailed discussions in an authoritative, grown-up fashion is what is required, and that's got to be done. If it's not done, our case isn't going to be very well understood.

[171] The point I was trying to make about direct effect and how we substitute—it's not dependent on trade agreements. It's environmental standards, it's decisions taken by EU bodies because that's the way the system was set up. But when there is an absence of regulation—and it's not just agricultural pricing, it's environmental standards; there are a whole set of things where bodies of the EU and the Commission themselves have powers to decide things. If you go into limbo, there'll still be a need for someone to decide those. The paradox is that the extent of legislation that is involved and the degree of scrutiny necessary for each of those pieces of legislation make parliamentary control of it very difficult. In another world, when Norway joined the European Economic Area, although it has a very responsible Parliament, in one day they enacted something like 3,000 bits of legislation without anyone looking to see what was within them. Because that was the *acquis* of the EU and the EEA that they were joining. Now there are 7,000 pieces of legislation within the EEA. So, I can only stress it is an enormous task.

[172] As to being poker faced, I think you go into the negotiations and be poker faced about the extent of any fallback position, any nuances in your position. But you go in with a set of demands, and those demands are going to have to be pretty public. Because the other paradox in all this, of course, is that when Government does legislate on a directive, it goes through a scrutiny process in Parliament and has a degree of control, albeit very slight, of the negotiating position. If it was the Danish Parliament, they would set very precise conditions that the Government would have to fulfil. Westminster doesn't do that. It goes through the figment, but there's parliamentary scrutiny even of an individual piece of legislation. So, how much more, on something of this import, should Parliament actually have a role? If it's going to have the role, then the discussion's going to have to be pretty public. But of course it's public on strategy, not on detailed points, and certainly not on fallback.

[173] **Mark Isherwood:** You referred to those thousands of items of legislation that Norway had to vote through in one day. Of course, all those already applied within the UK as an EU member. All those applying at the date of Brexit will be incorporated into UK law, so we're told.

[174] **Sir Emyr Jones Parry:** No, they won't be. I'm sorry to interrupt. They are in UK law at the moment. They're part of UK law—let's be quite clear—either implemented by Westminster, by the Scottish Parliament, by the National Assembly here, or the Assembly in Belfast. They've been implemented, but when we leave the EU, they stand, unless there is an Act to rescind them by which everybody is competent. They're part of law.

[175] **Mark Isherwood:** Okay. They will be UK law, whatever happens.

[176] **Sir Emyr Jones Parry:** They are a part of law.

[177] **Mark Isherwood:** At the point of exit, they will remain UK law. Your comment I think applied to new measures that the EU might then implement and the degree to which the UK Parliament and other devolved Parliaments would then have to take separate legislative steps or otherwise incorporate that at a domestic level. We wouldn't be obliged to do that, would we? We could do it differently or better, if we felt we could improve upon it, unless it was subject to a trade deal.

[178] **Sir Emyr Jones Parry:** Sorry, Chair. I obviously didn't put it clearly enough. Directives have been enshrined in UK law and will continue to be. There's another set of things that are currently in UK law that stem from what's called 'direct effect'; they're regulations passed, often by the Commission, but that have force of law in the United Kingdom, but they have force of law by virtue of our membership of the European Union. When we cease to be members, they're not part of British law, so they fall. My point is, most of those, in one way or the other, you'll have to put something else instead of them.

[179] When we're talking about new law, that's the fascinating thing about the position for—. Let me go to Norway. Norway, because it's a member of the European Economic Area, didn't only enshrine immediately, without scrutiny, all those directives into Norwegian law, but it committed itself that, whatever was decided within the EU pertaining to the internal market, they would then enact. They had an opportunity to shape that legislation—'shape' in a very loose sense—but no power of decision on it, but an obligation to enshrine in law. The argument was always adduced that Norway could always reject. Well, Norway once put up its hand and said, 'We don't like that piece of legislation', and after discussion, agreed to accept it. That was the extent to which Norway's sovereignty has been actually affected by its membership of the EEA.

[180] The challenge for us is, if we want a share of the internal market—that's a decision that will have to be taken—you can say, 'Well, we'll freeze it, if you like', and the internal market, as it stands, most of it enacted by directives already in our law, that's fine, but what happens to new laws or to amendments of existing laws? Are we bound to accept those or not? It's a far-reaching decision and that's why lots of people argue, 'Well, we shouldn't be part of the internal market itself'. So, be very careful about the phrase 'unfettered access to the single market', because it carries lots of legal implications, not to mention free movement and contributions to the budget, which come with it.

[181] **Mark Isherwood:** I think we've had similar discussions in the Chamber about the difference between 'full membership' and 'access to'. But, yes, thanks for clarifying that.

[182] **David Rees:** Thank you for that. You've highlighted the complexities and the challenges that exist within the Whitehall machinery, facing not just, I think, Wales, but perhaps all devolved nations. What I would like to ask then, in earlier evidence we received, there was a possibility regarding trade negotiations of maybe having separate types of trade agreements based upon different sectors. Is that a possibility? Are the complexities of that perhaps challenging again in the new Department of International Trade, and is that the better way for Wales, based upon its economy?

[183] **Sir Emyr Jones Parry:** Years ago, I sat on a thing called the general agreement on tariffs and trade round group in Whitehall, which is one of the most tedious committees I've ever sat on. But the reason was that, although we didn't negotiate ourselves, we spent hours preparing for the British position, because in the Council of Ministers, they then authorised the Commission as to what it will then go away and negotiate, because it's the Commission that negotiates, but it does it under a remit from the Council of Ministers.

15:30

[184] At that time, there were in Whitehall, in the ministry of agriculture and in the Department of Trade and Industry—both as was—genuine trade policy experts. I don't see more than three or four of those remaining in the whole of Whitehall because it's been done by the Commission and, on the whole, people have been rather keen. The British policy up to now has been that the

Commission has been on the liberal side of trade compared to a number of member states who are more protectionist, and we encouraged the Commission to get on with it. Well, the chickens have come home to roost, and we don't have many people able to negotiate.

[185] The problem then is, 'What are we going to negotiate?' If we were addressing WTO negotiations or negotiations with third countries, I suspect we would have to, by WTO rules, be in a position where we were covering as much of the whole of trade as was possible, and if it was going to be a free trade area agreement or free trade agreement with any country, it has to cover the bulk of agricultural trade as well. So, we're talking about something that is not sector based, but pretty wide.

[186] If we're talking about negotiation with the European Union, I think the question of sectoral interest does come to bear. The Swiss bilateral agreements—how many; 40 or 50 of them—obviously cover sectors, and that's one way into the issue. It's the path that Switzerland chose when, in 1992, the referendum went against EEA membership, so they pursued a different path in.

[187] **David Rees:** Thank you. Eluned.

[188] **Eluned Morgan:** On that, I think it's no secret that the EU is not terribly comfortable with the Swiss relationship with the EU, so the question of whether they'd be prepared to extend that I think is probably an interesting one. I'm just wondering, in terms of the transitional arrangements, where we're at in terms of the worst case scenario. If the worst case scenario is that we just fall off a cliff after two years, shouldn't we be spending the time from the triggering of article 50, not in terms of trying to negotiate a new trade deal, but actually making sure that we get those transitional arrangements in place before we do anything else, because that's the worst thing that could possibly happen?

[189] **Sir Emyr Jones Parry:** Well, there's quite an argument for that, but the politics also are that a lot of people would say, 'The British people voted out, and what you're saying is we're staying in until'. That might not be something that individual members or parties would sign up to. On a practical basis, it's one way of looking at it. I don't have any doubt that some form of transitional arrangements are going to be necessary, because there isn't the capacity either in legislatures or within the civil service to actually cover all those aspects that I've tried to set out within the time available.

[190] **Eluned Morgan:** Can I ask you about the relationship? You hinted that, actually, what we should be doing is focusing our attention on member states rather than the European Commission in terms of negotiation, but the lead, the people holding the pen will be the European Commission. So, how easy is it going to be to influence the people holding the pen if we have to go via the member states?

[191] **Sir Emyr Jones Parry:** I wouldn't discount the fact that we have to work with the Commission, of course, but the chances of influencing the present Commission and the present President of the Commission are greater if we've got member states putting influence to bear in the same direction. And, of course, it's quite right that there are trading interests that a number of countries—. Those who export from the other member states that much more to the United Kingdom than we export to them will have an inducement to be positive—of that there's no doubt. But remember the overall balance is that half our trade goes there and 10 per cent of their trade comes here. In terms of negotiations, if we ended up that we lost all our trade and they lost all their trade to us, they'd still have 90 per cent but we'd have half. That's the reality of it.

[192] **Eluned Morgan:** Can I just finally ask you about this machinery of Government and how we can insert ourselves into that machinery? How easy is that going to be when we don't even know where it is and how it exists at the moment? I just wondered if you could confirm whether that department of Brexit is made up largely of former FCO people. How can they be negotiating something when, just two years ago, the balance of competences review actually suggested that there was no need to repatriate anything to the UK? How can they have any legitimacy in terms of negotiating if that was their conclusion two years ago?

[193] **Sir Emyr Jones Parry:** Perhaps I've been a bit too scathing on the structure, but what is clear is the structure is emerging and it's pretty opaque. So, it's not that easy to get yourself into it, but it will have to emerge. The problem is that, when I was once responsible for EU policy, I had a vision of how one approached the overall strategy. I don't know who in Whitehall today is going to be that voice. What I'm saying is that, for the people who've inherited the position I was in, it's not easy, actually, to go to a Whitehall meeting and say, 'To be really sensible about this, can I set out the facts?', when you're going to be cut off at the knees by your political boss. That's the reality of their position. So, who's going to be the voice of,

'Well, this is complicated, now let's try and be rational about it'? It's not easy at all.

[194] As for credibility, civil servants are meant to do what their political masters tell them. That's no different to a general election where Labour is asked to leave and the Conservatives come in and you're espousing an entirely different policy four days later. That's happened to me twice in my life, in 1979 and in 1997. You just got on with it. That's the British system.

[195] **David Rees:** Can I ask, you've just said earlier—. You've talked about the fact that the negotiation should be with member states to encourage and gain friends as much as possible in Europe. Is there a role for the First Minister in Wales to actually also be involved in that type of approach, so that the considerations we believe are important to our economy are also in the minds of nation states in Europe?

[196] **Sir Emyr Jones Parry:** Now, to contradict myself, I think there is more of a role for Wales with the Commission than there is with other member states. I think that the Commission has become accustomed to dealing with Wales. You've seen the way structural funds are allocated. The direct contact between Wales and Brussels is rather different to what it was 30 years ago. It would be more of a problem if the First Minister were to pitch up and start negotiating with, say, the Spaniards about what we wanted for Wales—Catalunya is an obvious reason why. There would be that same sense among a lot of them saying, 'Nation states negotiate with nation states and Governments with Governments.' So, the primary interest of the Welsh Government, I think, is really in influencing the British Government and making sure that that position is one as compatible as possible with Welsh interests.

[197] **David Rees:** Does any other Member have any other questions?

[198] **Eluned Morgan:** Can we ask Peter some questions? Is that okay?

[199] **David Rees:** You're entitled to.

[200] **Eluned Morgan:** Sorry, Peter, we've—.

[201] **Professor Halligan:** That's all right.

[202] **Eluned Morgan:** I just wonder if you could just outline—. Do you have

a political position as a—. What is your position as the Learned Society of Wales? Have you got a view on this? If so, how have you come to that view?

[203] **Sir Emyr Jones Parry:** Hang on, I have been speaking as president of the Learned Society of Wales.

[204] **Eluned Morgan:** Ah, okay. Right. I'm sorry, that wasn't clear to me.

[205] **Sir Emyr Jones Parry:** Nothing I've said is incompatible with that role, but Peter is an expert to speak for himself too.

[206] **Professor Halligan:** At the learned society, we've worked alongside many of the other national academies within the United Kingdom—the Royal Society of Edinburgh and the Royal Irish Academy—in making a pan-academic voice for the effects and what we can do for that and to mitigate that in Wales. The three areas are: research funding, collaboration and movement of researchers. We're all common with regard to the need for it to do that because, as you might have noticed today, HEFCW have just released a press release with a new report indicating how well Welsh research is actually doing compared to what it was doing about 10 years ago—68 per cent of the actual publications are above the world average. So, for a small research base within Wales, which the learned society would seek in terms of scholarship to inspire and promote through a variety of activities, we're very keen that that isn't perturbed, because, obviously, it influences innovation and all aspects of some of the industrial and business policies that smaller nations are engaged in.

[207] **Sir Emyr Jones Parry:** I think, Chair, what that highlights is disparate views. Arguing on a university basis, the sense of community—. Fourteen per cent of academic staff at British universities come from other member states. The nature of the community of the intellectual scholarship, the free movement of students, which, again, enriches universities, and, putting it bluntly, the money that comes, because 18 per cent of EU expenditure currently in the UK goes on research—they're all things that universities have benefited from. But that's where the disparate interests come in. Wales has a crying need for doctors, medical staff, and people working in taking care of the elderly. Those are heavily dependent upon people from other member states. Those realities will bite on how policy works in Wales. It's less of an opportunity for Wales if we lose all those, and it is a massive disadvantage. So, a Welsh Government will have to take those into account.

[208] **David Rees:** Thank you.

[209] **Eluned Morgan:** I think I'm right in saying that, actually, in terms of access to framework programme 6 and framework programme 7 in the past, we haven't performed as well as our counterparts in English universities. Is that fair to say?

[210] **Professor Halligan:** Well, the comparison I would make is with other smaller nations. In particular, I'm very well aware of how the Irish have done in setting certain targets, and that would be true, what you've just said. But there are great opportunities. In fact, if you look at the proportion of funding that we actually get, it is closer to our notional 5 per cent with regard to EU funding, but that comes from a variety of both structural and competitive sources. But, yes, there's certainly room, but an awful lot of our research is done in partnership with other colleagues in Europe and internationally—45 per cent or 46 per cent of that. So, to lose access to that, or the potential for collaboration or the freedom of—. An awful lot of the research in the United Kingdom, and that goes for Wales as well, comes from researchers who come from Europe in here, and they do that research. To lose that in any particular way would have devastating effects on our universities, on our scholarship, on our research and, ultimately, on our economic abilities.

[211] **Sir Emyr Jones Parry:** I think you also have to compare the Welsh performance with comparable universities in England. If you take out the golden triangle of Oxford, Cambridge and the three big London recipients on research, and add in Manchester and Edinburgh, then the rest of England and Scotland doesn't do very well in research funding at all. So, we're punching well, compared to those.

[212] **David Rees:** Thank you.

[213] **Eluned Morgan:** But we would be able to access Horizon 2020, probably, if we paid in. So, it's not as if—. The chances of us continuing our relationship in terms of EU universities, I would suggest, is probably quite high. I mean, if Israel can negotiate a deal on this, I'm sure that we should be able to. So, it's not as if we're going to cut off altogether; we'll just get back what we've put in. Is that right?

[214] **Sir Emyr Jones Parry:** You referred earlier to the Swiss and the EU not being too enthusiastic about the Swiss deals. Because of the referendum on free movement, the community has decided that, from next spring,

Switzerland will not take part in scientific co-operation. So, all these things come with a condition attached.

[215] **David Rees:** The final question from myself: you've highlighted the challenges to the constitution if we don't get this right; is there a danger that we might actually have a problem trying to address constitutional issues at the same time as we're trying to address the Brexit issue, and will one perhaps overtake the other one? I want to make sure that, if we're discussing Wales's position, we look at how we get the best deal and opportunities as part of our Brexit deal without having to perhaps lose sight of where we are within the UK.

[216] **Sir Emyr Jones Parry:** I think the problem, Chair, is that if the British Government were to pursue a policy that was totally disregarding of the views of three nations—which it may well end up doing; I've no idea—but, if they were to, the consequences for the unity of the United Kingdom, I think, would be severe and it would be very rash of the Government to do that, in my view.

15:45

[217] So, I'm not suggesting for a moment that we can sort out a federal structure for the United Kingdom or whatever, and have a new constitutional settlement as part of this negotiation, but you've got to be mindful of the consequences, especially that one part of the kingdom is very intent—and the vote said that they wanted to stay in—on using this for a purpose that isn't intended to preserve the unity of the United Kingdom. That's the reality; you can't ignore it.

[218] **David Rees:** Thank you. Thank you for your evidence this afternoon. We've had, I think, clarity on some of the challenges ahead because, perhaps, of the structures we're working with. You will receive a copy of the transcript; if there are any factual inaccuracies, please let us know as soon as possible and we'll get them corrected. Once again, thank you for attending.

15:46

**Papurau i'w Nodi
Papers to Note**

[219] **David Rees:** Can Members move on to item 4 on the agenda? The

paper to note is the minutes of the meeting on 7 November 2016. Are Members content to note those minutes? I see they are. Thank you very much for that.

**Cynnig o dan Reol Sefydlog 17.42(vi) i Benderfynu Gwahardd y
Cyhoedd o Weddill y Cyfarfod
Motion under Standing Order 17.42(vi) to Resolve to Exclude the Public
for the Remainder of the Meeting**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o weddill y exclude the public from the
cyfarfod yn unol â Rheol Sefydlog remainder of the meeting in
17.42(vi).*

*accordance with Standing Order
17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[220] **David Rees:** Item 5: I now propose, under Standing Order 17.42(vi), that we move into private session for the remainder of this meeting. Are Members content? Then we'll move into private session.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 15:46.

The public part of the meeting ended at 15:46.