

## The impact of Brexit on Welsh ports

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### Summary

- The role of Welsh ports within trading patterns is complex, connecting both the Welsh and UK economy to the EU and the rest of the world, as well as providing a landbridge for freight movements to/from the Republic of Ireland
- The trading and policy frameworks adopted by the UK government will have an impact on Welsh ports in terms of freight flows and operating practices
- Smooth, reliable border controls are essential for efficient port operations, and the supply chain can support this through schemes such as Authorised Economic Operator approval.
- Welsh ports already operate in a competitive market, and opportunities for port-centric logistics and free-trade zones would enhance this.
- Irish traffic flows will be affected by the efficiency of border crossings, which may alter freight flows towards routes suited for unaccompanied trailers.
- Opportunities from the M4 Relief Road and Severn Bridge Toll reduction will impact on logistics costs and therefore the competitiveness of Welsh ports

### Introduction

The port sector makes an important contribution to the Welsh economy and is a major part of the Welsh and UK logistics network. In 2015, the Welsh ports handled 55.5 million tonnes of freight, as summarised in Table 1 (A more detailed breakdown by commodity is provided in Appendix 1). The traffic flows can be broadly categorised into two markets – general cargo, which is often moved in bulk volumes and transits through Welsh ports to/from global destinations, and unitised cargo, which tend to be concentrated on UK to Ireland flows. Some of the ports in Table 1 handling general cargo tend to be for specific markets and, if these are excluded from the figures, imports account for approximately 60% of the volumes. Unitised flows are particularly focused upon Holyhead, Fishguard and Pembroke Dock. Only limited aspects of port policy are currently devolved, although this will change in 2018 with full devolution to the Welsh Government.

Major Ports	General Cargo	Lift-on / Lift-off containers (Lo-Lo)	Roll-on / Roll-off (Ro-Ro)	Total
Cardiff	1,653,000	138,000	0	1,791,000
Fishguard	10,407	0	367,417	377,824

<b>Holyhead</b>	16,691	0	4,438,246	4,454,937
<b>Milford Haven / Pembroke Dock</b>	36,821,327	0	862,465	37,683,792
<b>Newport</b>	2,571,341	0	0	2,571,341
<b>Port Talbot</b>	8,112,860	0	0	8,112,860
<b>Swansea</b>	518,047	0	0	518,047
<b>All Major Ports in Wales</b>	<b>49,703,673</b>	<b>138,000</b>	<b>5,668,128</b>	<b>55,509,801</b>

**Table 1. Cargo volumes through Welsh ports 2015, tonnes (source: DfT, 2016)**

### **The Role of Welsh Ports**

Amongst the most prominent examples of Welsh ports serving the UK as a whole are Milford Haven, which acts as a national oil and gas gateway, and Port Talbot, which acts as an import gateway mainly for Ores and Coal. The Ro-Ro ports (notably Holyhead, Fishguard and Pembroke Dock / Milford Haven) operate as part of an international landbridge between Ireland, mainland Britain and ultimately continental Europe.

This leads to a complex set of relationships regarding freight movements between Ireland, Wales, England, continental Europe and other continents. Particularly noteworthy is the role of Welsh ports handling English cargo, e.g. Holyhead (Ro-Ro), Milford Haven (LNG & Oil), Cardiff (Unit Loads), and English ports handling Welsh cargo. Examples are Dover and Portsmouth (Ro-Ro), Southampton and Bristol (containers and cars), and Liverpool (bulk general cargo and containers). The last group comprises Welsh ports which serve Europe. The most obvious is Mostyn where Airbus wings, manufactured at Broughton, are exported to France using a specifically tailored multimodal transport solution.

The implications of these trade combinations are that deep-sea trading partners e.g. Qatar (LNG), Middle East states (oil), Republic of Ireland (short-sea containers), and continental European countries (driver accompanied trucks and unaccompanied trailers) are enmeshed in integrated trade movements. This is especially the case where, for example, sealed containers or trailer units carry a mix of freight whose origin is perhaps EU, but whose destination may not be EU. Similarly the consignment mix coming into Wales (or continuing to Ireland via Wales) may be a combination of non-EU and EU cargo. If consignments are delivered into Wales by truck or rail from, for example, Southampton or Felixstowe, the cargo itself is likely to have a deep-sea origin e.g. the Far East.

The trading pattern of Wales, although known to be heavily EU-oriented at the macro level, therefore cannot be easily parcelled into discrete geographical blocks. The more integrated and complicated supply chains are, the more difficult it is to reconfigure or unlock them. Examples of very complex multi-tier chains are those in the aviation and automotive sectors. Value creation starts from raw materials importation, extends to component manufacture, to sub-assembly engineering and then to final build. These processes can often involve multiple outward and return movements which can be within the UK, between the UK and the EU, or between the UK and other overseas trading partners. An example is the assembly of Nissan cars in Sunderland for the home-market and for export to Europe. Some of the raw materials are imported via the deep-sea ports prior to component processing and manufacture in Wales, before transport of components to North East England for final vehicle assembly. The assembly of Airbus wings using imported components

prior to the export of wings to South West France for final aircraft assembly is similarly complicated with a number of component parts being sourced from outside the EU, e.g. the United States.

An interesting overview of the ports and shipping business within Wales was presented as part of the Wales Freight Strategy (WAG, 2008). The document identified a series Strengths, Weaknesses, Opportunities and Threats which could have a bearing on the trajectory of ports and shipping developments going forward. Interestingly, under opportunities “Expansion of the European Union” was cited as a potential driver of business growth, but it could be that the pending Brexit negotiations, while they may lead to reorganisation or even reduction of some trades, bring opportunities for Welsh ports involved in non-EU cargo import / export. The Wales Freight Strategy highlights possible underused assets such as inland waterways and supply chain reconfiguration as an area of opportunity for reorganised distribution practices with possible positive effects on port volumes and port-related logistics.

### **Welsh Ports and Brexit**

Brexit has brought about a range of challenges and opportunities for Welsh ports. While there remains a degree of uncertainty of the exact impact pending a final agreement between the UK and EU, there are a number of aspects that can be identified and discussed, with preparatory steps taken both by Welsh ports and their users through the supply chain.

### **Trading Agreements**

Demand for ports generally is often considered to be ‘double derived’ as it is determined by, first, the trade in goods between two points and, second, the choice of transport mode for these goods. Therefore, Welsh ports will be affected by the trading agreements between the UK and other countries/trading blocs. Factors such as tariffs and currency fluctuations will also have an impact.

In terms of some of the major general cargo types outlined in Appendix 1, the oil and gas industry already operates within a global supply chain, and with most liquid bulk movements through Welsh ports coming from outside of the EU, it seems unlikely there will be significant change.

The steel industry however, could face a number of different pressures. For example, Tata Steel typically uses the south Wales ports to export to the French and Spanish markets (although some French traffic also goes by train through the Channel Tunnel). However, they also have manufacturing capabilities for similar products on continental Europe. Therefore, it may be plausible that certain products would be produced within the European Single Market instead of the UK. Equally, however, there may be a transfer of non-EU demand to the UK, where exchange rate changes could enhance competitiveness. Steel is also one industry where countries often impose tariffs or quotas to protect domestic manufacturing and how these apply to the UK would again influence demand.

The forestry industry is also a significant user of Welsh ports, and the UK is the third largest importer globally of timber products. One of the factors behind this is the presence of EU standards for timber used in the construction industry. Timber grown in the UK does not always meet this standard, hence the level of imports (Confor 2016). If these standards are eased upon exit from the EU, then the level of imports may decline. The challenge for the Welsh Government will be to balance the needs of the Welsh forestry industry against the Welsh ports industry.

### **EU Policy and Regulation**

One of the most pressing issues currently is the EU Port Services Regulation. The aim of this regulation is to improve market access to port services (such as towage) and provide clarity on port charges and financial transparency. Unlike the rest of Europe, the UK ports industry is largely privatised and therefore commercial decisions are taken as to whether the port operator provides port services or permits other organisations to do so. Therefore, the industry has argued that the Ports Services Regulation will be damaging for UK operators. This regulation comes into force in 2019 but needs to be enacted into UK law before then. Given the timescale for Brexit, clarity is needed from the UK government on this on its implementation.

Clarity is also needed on whether the UK will continue to feature within the Trans European Network – Transport (TEN-T). Currently, TEN-T corridors exist to both North and South Wales ports, reflecting their importance for traffic to/from the Republic of Ireland. Consequently, there are expectations in terms of their specification and funding available from the EU to find investment in them. Funding under this scheme has not always been constrained to EU countries although the main emphasis has often been on connecting accession states to the EU.

### **Border controls**

Brexit will result in more traffic through Welsh ports being subject to border and customs controls as a result of the UK leaving the Single Market. This has the potential to introduce delays into the overall transport journey, which can then impact on port choice as well as wide supply chain structures. It will be important that processing times are kept as short as possible while also being consistent, so that shippers of goods have a degree of certainty on this aspect of the overall transport journey.

There are a number of steps that can be taken to assist this process. There has been talk of a UK wide, multi-agency IT system to enable customs and borders processes to be carried out through a single system. This is potentially a significant development and one that may be challenging to achieve in the Brexit timeframe. However, it will be important for the Welsh Government to engage in this development and support its introduction in Wales. As well as the system itself, the Welsh Government can also ensure that the necessary infrastructure to support its implementation is available. Ports will need appropriate IT infrastructure as well as access to broadband networks.

Members of the supply chain can also assist the smooth movement of goods through ports. Schemes such as the Authorised Economic Operator (AEO) scheme and TIR carnets can facilitate international trade. With firms becoming members of the AEO scheme, they can benefit from fewer safety and security controls, and/or priority at customs clearance. Post-Brexit, there will be a need to ensure the UK has a mutual recognition agreement with the EU for AEOs. Anecdotal evidence suggests that knowledge of this scheme is relatively low, processing times for applications are long and a high percentage of applications for AEO status are rejected, often due to errors in the application form itself. Therefore, a role exists for both the UK and Welsh Government to encourage and support members of the supply chain to obtain this status, with benefits then for the ports in terms of the movement of goods through them. There would also be a role for trade and professional bodies in supporting this activity.

TIR Carnets can also facilitate trade. These are particularly suited to unitised goods and allow fewer checks at ports, providing the seal on a trailer/container has not been broken. TIR carnets are recognised in 60 countries, both within and outside the EU, and are held by the transport operator rather than the shipper of goods. While there will be operators who are already familiar with the

scheme, it would seem likely that there will need to be an increased use of these after Brexit and therefore education and guidance for logistics providers within Wales would be beneficial.

### **Improving port competitiveness**

Today, Welsh ports already compete with others both in the UK and Europe for the handling of freight and, to some extent, Brexit does not change many of the basic requirements for them to do so. Because the port is only one stage on the journey, being able to access the port in an efficient manner is essential. This includes both road and rail connections, the latter being particularly important in South Wales where many ports are already connected to the national network.

Port-centric distribution is becoming an increasingly important concept. This is where logistics activities are concentrated around the port to eliminate additional handling at an inland terminal. Therefore, the provision of warehousing facilities for this is important, although this will often be carried out commercially by the port operator where they believe a return on investment can be generated.

Supporting this, however, is the opportunity to develop free trade zones around ports. These enable goods to be landed, stored, processed (from large scale manufacturing to finishing) and potentially re-exported, without having to pay customs charges. For imports, this can potentially improve cash flows, particularly for products where there may be stockpiling (such as seasonal products) and imports can occur a significant time before onward sale. It also enhances the capability of a port to act as a trans-shipment location. The location of Welsh ports is perhaps less suited to trans-shipment operations, but the benefits for imports from free trade zones are more pertinent.

### **Unitised traffic flows to/from Ireland**

These particular flows require some additional attention, as they are perhaps the most likely to be affected by Brexit and any negative impact could have serious implications for the ports they operate through. Table 2 provides some more detailed statistics for these flows, and also provides comparative statistics for Liverpool as a direct competitor port. An important aspect in the statistics is the split between accompanied road goods vehicles and unaccompanied trailers or port-to-port trailers. It is clear that the shorter the crossing, the greater the proportion of accompanied vehicles. Accompanied vehicles have a greater cost associated with them, and therefore shorter crossings use these resources for a shorter period of time.

<b>Port</b>	<b>Destination</b>	<b>Port-to-port trailers</b>	<b>Road goods vehicles</b>	<b>Unaccompanied trailers</b>	<b>All</b>
Fishguard	Rosslare	0	21,273	9,888	31,161
Holyhead	Dublin	0	286,003	108,433	394,436
Pembroke Dock	Rosslare	0	33,307	32,880	66,187
Liverpool	Dublin, Belfast	15,000	125,729	361,689	502,418

**Table 2: Roll-on / Roll-off freight units through ports to Ireland 2015 (source: DfT, 2016)**

Considering flows starting/ending in the UK, for Welsh ports it will be important to provide a quick transit through the port to the vessel. Many of the vehicles, and particularly those through Holyhead, are carrying time-sensitive deliveries for retailers that need to be in the shops on time. These retailers are willing to take the additional cost penalty of sending a driver to Ireland because the shorter sea journey means that dispatch from distribution centres can be later than sending

products through Liverpool. If Brexit increases the transit time through the port, it may offset the time advantage and lead to the use of unaccompanied trailers. This would then make Liverpool a more attractive proposition, diminishing the competitiveness of Holyhead. The impact for southerly crossings is less significant although there may be some redistribution from Fishguard to Pembroke Dock.

A further competitive pressure for these flows may emerge if border controls differ depending upon if a vehicle is routed through Northern Ireland or directly to the mainland UK. There appears to be a desire for a 'soft' border between Northern Ireland and the Republic of Ireland. If this contrasts to a 'hard' border for freight moving direct to the UK (and with no tightening of controls for freight leaving Northern Ireland ports), then the Liverpool to Belfast route may become more competitive. If this occurs and traffic is seen to be switching, operators may decide that a Holyhead to Belfast route would be viable but, until the exact nature of the borders are determined, it is difficult to conclude what the future situation may be.

For freight from Ireland to Europe, if existing routes across the UK are maintained, then there will be two border crossings to negotiate with the potential for delays at both. This may then increase the competitiveness of the ferry crossings for Ireland to France, particularly for traffic to southern and western France as well as the Iberian peninsula. As noted earlier, the use of the AEO scheme and TIR Carnets may be beneficial in easing delays through ports.

One opportunity that does arise is for the use of rail from Holyhead. While this may be competitive for flows to/from the UK, the bigger benefit (albeit with a smaller market) would be through the Channel Tunnel to mainland Europe. The North Wales Regional Transport Plan (TAITH, 2009) proposed such a service, and its potential viability was subsequently confirmed. The trailers would need to be loaded onto rail within the port site, to avoid customs issues as well as facilitate the use of specialist equipment not permitted on the road network more generally. Although no further development has taken place, Brexit may provide an opportunity to revisit this idea.

#### **M4 Relief Route and Severn Bridge Tolls**

Arguably the two most important infrastructure projects in South Wales, going forward, are the construction of an M4 relief route to the south of Newport and the reduction or abolition of the Severn Bridge tolls in 2018. At first sight, neither would appear to have a direct influence the position of Welsh ports post-Brexit. Both projects however will have a significant influence on transport and logistics costs along the South Wales corridor. Of the two projects, the more immediate is, of course, the adjustment to the Severn Bridge tolls, which will potentially boost the Welsh economy by up to £100m per annum (Beresford and Jones, 2017). The benefits of significant toll reduction, or toll removal, take the form of reduced operating costs for transport companies, and some reduction in time-loss, e.g. by reduced queuing times at toll booths. For large commercial vehicles, the current crossing fee is £20 west-bound only (recalculated to £10 for each direction), which implies that savings over short delivery journeys, e.g. Bristol to Cardiff / Newport could be in the region of 10 percent or higher depending on exact origin or destination. As delivery distances increase, this percentage saving will drop, but for most England - Wales deliveries the saving will be significant.

More difficult to calculate will be the benefit of the M4 relief route to freight delivery companies, but it is widely accepted that the project will contribute to making freight distribution in South Wales cheaper and more efficient (see for example, Beresford, 2005; BBC, 2009; Lovering, 2016; and

Beresford and Jones 2017). This in turn implies that road transport to and from the South Wales ports should become cheaper, more efficient and more competitive in the medium to long term. The local transport-based economy, therefore, should be somewhat more resilient following the implementation of these improvements. However, it should be noted that the currently proposed route compromises the capabilities of the Port of Newport.

### **Cardiff Airport**

Although the emphasis of the evidence is on sea ports, many of the above principles would also be of benefit to Cardiff Airport, enhancing its competitiveness for air freight. This is particularly pertinent following the announcement from Qatar Airways of services starting in 2018. Currently, freight capacity on scheduled passenger services is very limited, and consequently freight is not carried through the airport (CAA 2017). While the aircraft type to be operated by Qatar Airways has not been announced, if it is one of their widebody aircraft then cargo capacity would be available. Currently most air cargo uses Heathrow airport, although some goes to East Midlands and Birmingham airports, and therefore an opportunity exists to encourage greater use of Cardiff airport in the future.

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	Cardiff	Fishguard	Holyhead	Milford Haven	Newport	Port Talbot	Swansea
Liquid bulk							
Liquefied gas	0	0	0	9,593	0	0	0
Crude oil	0	0	0	10,570	0	0	0
Oil products	1,042	10	17	16,505	0	0	0
Other liquid bulk products	33	0	0	79	0	0	0
Dry bulk							
Ores	27	0	0	0	279	5,423	5
Coal	0	0	0	0	133	2,303	61
Agricultural products	0	0	0	37	303	0	0
Other dry bulk	294	0	0	24	339	386	346
Other general cargo							
Forestry products	23	0	0	0	70	0	58
Iron and steel products	234	0	0	0	1,438	2	0
General cargo & containers <20'	0	0	0	14	9	0	49
Containers							
20' containers	109	0	0	0	0	0	0
40' containers	10	0	0	0	0	0	0
Containers >20' & <40'	0	0	0	0	0	0	0
Containers >40'	19	0	0	0	0	0	0
Roll-on/roll-off							
Road goods vehicles and trailers	0	250	3,212	370	0	0	0
Import/export motor vehicles	0	3	0	1	0	0	0
Unaccompanied road goods trailers	0	114	1,224	491	0	0	0
Unaccompanied caravans, agricultural and industrial vehicles	0	~	2	1,00	0	0	0
<b>All traffic</b>	<b>1,791</b>	<b>378</b>	<b>4,455</b>	<b>37,684</b>	<b>2,571</b>	<b>8,113</b>	<b>518</b>

Appendix 1: Cargoes handled by major Welsh ports 2015 (thousand tonnes)