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Dear David

Thank you for your letter dated 24 July following my appearance before your Committee on 8 July.

As you state it was a constructive discussion on some of the most critical issues for Wales that will arise as a result of Brexit, including intergovernmental relations, international trade and strategy, and Brexit negotiations.

In your letter you asked for responses to questions on the Welsh Government's preparedness for Brexit that were not reached during the scrutiny session which are set out below.

You outlined that the Counsel General has previously said that there are now two potential outcomes in relation to Brexit, a no deal or remaining in the EU, and a majority does not exist in the House of Commons for the type of Brexit the Welsh Government proposed. You asked what impact has this analysis had on the Welsh Government's approach to preparing for different Brexit scenarios?

The new Prime Minister has made it very clear that his intention is for the UK to leave the EU with or without a deal on 31 October. Given his insistence that the Withdrawal Agreement would need to be reopened and the backstop removed, it is barely credible that a deal can be concluded and the necessary legislation passed in time.

We therefore continue to argue for, and support efforts to put the decision back to the people: remaining in the EU must clearly be an option in any such vote. I made this point forcefully during my meeting with the Prime Minister on 30 July and clearly explained our view that he had no mandate for a no deal Brexit.

We have always been clear that remaining in the EU is in the best economic interests of Wales. Now that the chance of achieving a less damaging soft Brexit seems vanishingly small,

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

and three years on from the original referendum we have concluded that it is right to campaign vigorously to remain within the EU and for a referendum as a means to that end.

We also continue to press for and prepare for full engagement in any future negotiations with the EU, whether as a result of the conclusion of a Withdrawal deal or in the longer term, as well as preparing for potential trade negotiations with third countries.

As long as there is a risk of leaving the EU without a deal, we will do all that we can to prepare. We have increased the intensity of our preparations over the summer, so that we are in as strong a position as possible. But we should not be under any illusion that we can mitigate all the effects of no deal. There are practical measures that we can and will put in place to support the people and businesses of Wales. But the macroeconomic and fiscal levers that will be required to deal with an impact of this magnitude rest with the UK Government. We will press them to ensure that their response to the inevitable shock of no deal, and the longer term economic impacts, takes into account the economy of Wales, and is not limited to a narrow view that protects the interest of the South East of England.

In evidence to the Committee in June, the Counsel General highlighted the lessons learned exercise on no deal preparation undertaken by the Welsh Government since the extension was agreed in April. You asked what were the key lessons that the Welsh Government learnt from this, and how is it responding to these?

After the extension was agreed in April, we took the opportunity to review the no deal preparations that we had made up until that point. It was important that we take stock and think about how best to build on all the valuable work done across the public sector and beyond to ensure our preparations are as robust as possible.

In many ways the lessons learned exercise reinforced our existing understanding:

- that it is simply not possible for Wales to prepare in isolation - our preparations are much more effective when there is genuine engagement across all administrations, and open and timely information sharing from UK Government, and
- that the worst impacts may not be felt immediately, but the effects will be cumulative and develop over a period of time, potentially being felt most by the most vulnerable in society

We believe our strategic approach to preparations, looking to what could be done to mitigate the most significant impacts, compares favourably with the approach taken by the UK Government.

We are now building on our approach and these reflections to ensure our plans are as robust as possible. In particular, considering whether any of our underpinning assumptions need to change.

The Counsel General also previously highlighted the preparation being done by the Welsh Government in relation to 'backbone sectors' such as haulage, where issues arising from a 'no deal' Brexit could potentially spread to other sectors. You queried what the key emerging findings from this work are, and what steps are being taken by the Welsh Government to address them?

We are concerned that not enough prominence has been given to assessing the risks of no deal on sectors such as haulage and freight, which underpin much wider economic activity and many interventions that would be crucial in the event of no deal.

The sector could potentially face difficulties in recruiting and retaining drivers, for example, and have to deal with increased fuel prices, while being caught up in traffic congestion in ports. Yet we could be relying on them to transport critical goods within the UK. You will no doubt have seen the Freight Trade Association response to the leaked Yellowhammer assumptions, which reinforces our concerns.

We have for many months been pressing UK Government to undertake an urgent assessment of this sector. Wales relies on goods entering the UK via the Dover – Calais crossing and being transported across the UK. A UK-wide approach to this work is clearly the only way to understand that risk and any mitigating actions.

You outlined how the CEO of the UK Warehousing Association has raised concerns that UK warehouses are full, and that there are doubts about UK firms' ability to stockpile goods ahead of a potential no deal Brexit in October. You ask to what extent does the Welsh Government share these concerns in respect of Wales, and what work is being done in conjunction with the UK Government to ensure that there is sufficient capacity?

Concerns about the potential disruption to the UK's food supply have been the subject of much media comment. The primary issue is whether logistics across the Channel crossings operate smoothly and, if they are impacted, how severe that will be and how prolonged. Warehouse capacity is relevant to mitigating this risk up to a point but the degree to which it can do so varies with product types. Fresh products by their nature cannot be stockpiled and warehouse capacity is much less relevant than it is for longer life goods.

Warehouse space in the autumn is at a premium as retailers prepare for the Christmas shopping season, although it should be noted that the warehouse space is still used for food products. The situation is common to the whole UK and there is no uniquely Welsh aspect to it.

All Devolved Administrations are working closely with Defra to assess the situation and to contingency plan. The food industry is large, diverse and has flexible supply chains. Retailers and wholesalers have assured us that they are adjusting their logistics and making plans to maintain supplies to all their customers. Retailers and wholesalers are highly experienced and skilled in managing the supply chain. Nevertheless in a no deal situation it seems inescapable that there will be some impact on the range of choice of some fresh products to consumers. For its part, the Welsh Government is supporting all businesses with advice and information to prepare for a possible no deal. Thorough business preparation is vital to maintaining smooth import and export operations and this is the key to avoiding disruption.

In the medical sphere, you are aware we have acquired a warehouse in South East Wales to provide additional storage capacity for medical devices and clinical consumables to ensure there is a continuity of supply for Wales. As part of our contingency planning, we have been working very closely with NHS Wales, the UK Government, and other key stakeholders to assess risks relating to maintaining a supply for medical devices and clinical consumables after the UK leaves the European Union.

You asked what action has the Welsh Government taken to ensure the UK Government is aware of any additional funding it may need under a no deal Brexit, and has it received reassurance from the UK Government that sufficient funding would be made available?

The Welsh Government continues to have a range of discussions – at Ministerial and official levels – with the UK Government about funding for interventions that may be needed in the event of no deal.

Since I met the Committee on 8 July, the UK Government has announced an additional £2.1bn funding for Brexit preparedness this year. This includes £1bn for an operational contingency fund, from which Whitehall departments and the devolved administrations may bid for funding, and £1.1bn for specific purposes from which Wales received a consequential of £24.1m. This will not come anywhere near to mitigating the catastrophic devastation Brexit would cause to our economy, businesses and communities across Wales. The Spending review announcement by the Chancellor on 4 September announced a further £2bn in 2020-21 of UK Government funding to respond to the impact of leaving the EU. However, based on what the Chancellor announced it is likely much of this funding will focus on reserved areas of policy and there will not be a consequential received by the Welsh Government.

We have been clear that the support to address even a proportion of the impact of Brexit cannot be delivered within existing Budgets. We will require substantive additional funding and flexibilities to be able to respond. Most recently, the Minister for Finance and Trefnydd pressed this point to the Chief Secretary of the Treasury at a meeting of the Finance Ministers' Quadrilateral on 29 August.

The answers we have received from the UK Government to date provide no assurance that the funding we would require would be forthcoming.

I would welcome a very clear and unanimous message from the Committee that the National Assembly expects the UK Treasury to ensure adequate resources are in place to mitigate, as far as possible, the threat to our economy, businesses and communities and that Wales receives its fair share of any funding made available.

Many of the levers to respond to Brexit are in the hands of the UK Government. We would expect the UK Government to provide immediate financial assistance to support business, particularly the manufacturing and agriculture industries as well as direct financial assistance for the most vulnerable in society.

You enquired if there any examples of specific programmes of work that have been either delayed or scaled down as a result of the Welsh Government's need to prioritise resources for Brexit preparations?

We continually assess our priorities and review where to deploy our resources to ensure we can deliver our priorities.

Brexit has put extra burdens on both Welsh Government and the public sector and we have always sought to balance the need to prepare with the need to deliver 'routine' public services. This situation is being kept under constant review with each portfolio Minister looking closely at their specific areas in relation to Brexit.

This process is ongoing and will increase given that a no deal is a very real possibility.

Finally, you ask in your letter that if the Welsh Government's planning for different Brexit scenarios suggest circumstances where the Assembly may need to meet before the start of the autumn term on 16 September?

The Welsh Government continued to work throughout the summer on our no deal preparations, during Assembly recess. With these preparations we will be in as strong as position as possible to mitigate – to the extent we are able – the effects of a no deal exit.

The Presiding Officer agreed to my request to recall the Assembly on 5 September which allowed AMs the opportunity to debate the constitutional crisis which now faces Wales and the United Kingdom.

The additional Questions on International Trade will be answered by Minister for International Relations and the Welsh Language in her response to the Committee.

Yours Sincerely

A handwritten signature in black ink that reads "Mark". The letters are cursive and slightly slanted to the right.

MARK DRAKEFORD