

Council for Economic Renewal Wales' Place in the EU

Purpose of the Paper

A paper on Wales's place in the EU was requested by Social Partners for the agenda of the February Council. This paper sets out general background and key statistics relating to the value of the EU to Wales and summarises different perspectives on the EU.

1. Background to the European Single Market

Membership of the EU provides access to the Single Market, with a home market of 500 million people. Key aims of the Single Market are more choices and lower prices for citizens and business. Consistent regulations and reduced trade barriers have enabled EU-based firms of all sizes to do business across the Single Market.

The completion of the Single Market is a continuous exercise and is a central element of the EU's growth agenda for the future. With this in mind, in April 2011 the EU adopted the Single Market Act, setting out twelve levers to boost growth and strengthen confidence. These included, for example: taxation: access to finance for small businesses; and public procurement. In October 2012, the Commission proposed a second set of actions (Single Market Act II) to further develop the Single Market, including for example, through improved transport and energy networks and the digital economy.

However, much remains to be done on completing the Single Market, particularly for services and energy, and the new European Commissioners, who took office in November 2014 under President Juncker, have demonstrated a commitment to taking this work forward, with initiatives including those on the Digital Single Market (e.g. digital contract rights and cross-border access to content), facilitating the cross-border provision of services, the protection of intellectual property rights and the Energy Union Package.

2. Trade and Investment

The EU Single Market is the world's largest economy in GDP terms and remains our largest single trading partner. Businesses in the EU, both of EU origin and non-EU origin, and their supply chains have the opportunity to benefit from accessing this market. Accordingly many businesses of non-EU origin have established a substantial presence in the EU in order to take advantage of the Single Market.

Foreign Direct Investment (FDI) from EU countries accounts for about one third of the inward investment projects into Wales each year. Germany, Ireland, France and Italy are consistently amongst the top ten donor countries for inward investment into Wales.

FDI from non-EU countries therefore accounts for about two thirds of the inward investment projects into Wales each year. Whilst the reasons for locating in Wales will vary for different companies, enterprises from outside of the EU choosing to locate in Wales benefit from the EU Single Market and many choose Wales explicitly for this reason.

The EU is Wales' largest global export market. In the year to June 2015, the EU accounted for around 42% of all export revenues for Welsh goods. (Source: HM Revenue & Customs Regional Trade Statistics).

Ireland has been Wales' top export destination within the EU since 2012 and in the year to June 2015 accounted for 23.5% of Welsh exports of goods to the EU, worth £1.24bn. In the same period, Welsh exports to Germany were worth £1.04bn, 19.7% of total exports to the EU.

3. European Funding Programmes

Structural Funds

The European Structural Funds seek to address regional disparities in prosperity and opportunities across the European Union. To date European Structural Funds have represented a significant level of investment to help achieve sustainable growth and jobs in Wales.

Through the 2007-2013 Programmes, over £1.9bn of support from EU Structural Funds was approved, representing a total project investment of £3.6bn. This investment has helped create some 11,900 enterprises and 34,500 gross jobs, and helped over 64,900 people into work and 203,300 to gain qualifications.

For the 2014-2020 programme period the EU Structural Funds are worth around £1.8bn, at current exchange rates, to Wales with some £1.5bn allocated to West Wales and the Valleys and over £300m to East Wales. In the first year of the programmes £440m of EU funds (19.5% of EU allocation) has been invested driving a total investment of £970m. These investments are closely aligned with the Welsh Government's economic policies, with a strong focus on increasing skills and employment opportunities, research and innovation, helping businesses to flourish and renewable energy.

CAP and Rural Development

The Common Agricultural Policy assists farmers to maintain world-class food production at a time of massive strain for the industry and support is provided for developing our economy in rural areas.

The EU provided £210 million in 2015 for the Basic Payment Scheme to 15,500 farm businesses in Wales. It is also investing around £490m in Wales over 2014-2020 under the Welsh Government Rural Communities – Rural Development Programme which is a Wales-wide programme that aligns the EU priorities for rural development with the seven 'Well-being of Future Generations' goals. The Welsh Government co-

finances this meaning we almost double that amount to provide support for a range of activities designed to increase the sustainability and resilience of our natural environment, land-based sector, food businesses and communities. This includes: improving skills, innovation and knowledge transfer; creating and safeguarding jobs; improving agri-environmental outcomes; supporting woodland and forestry; increasing biodiversity; supporting and promoting resource efficiency; developing and delivering ecosystem services; supporting community development; improving animal health and welfare; and mitigating and adapting to climate change.

This programme has huge potential as is shown by the headline achievements for the 2007-2013 RDP which had a total value of £860m:

- 53,762 training days were delivered and there were 96,612 participants in training;
- Targeted funding strengthened added value aspects of our food industry, bringing an increase of €33m GVA through grants of €105m to 191 SMEs, and shorter and more efficient supply chains to 33 co-operative projects;
- The Glastir suite of schemes, which focuses on mitigating the challenges of climate change, carbon capture, water management and biodiversity brought over 1m ha of land under active management on 6,500 farms, and capital grants of €20m specifically addressed energy and water efficiency and slurry management;
- For rural economies and communities 397 projects were supported, including 100 LEADER projects for locally defined needs, with job creation of 1,484 exceeding expectations.

Other EU Programmes

WEFO, on behalf of the Welsh Government, is the Managing Authority for the 2014-2020 Ireland Wales Co-operation Programme, which is worth £58m of EU funds. The other 2014-2020 European Territorial Co-operation (ETC) Programmes in which Wales will engage, the Atlantic Area, the European Spatial Planning Observation Network (ESPON), Interreg Europe, North-West Europe and URBACT III (for integrated urban development) have all been formally approved and implementation arrangements are underway with an overall EU budget of nearly £1bn.

Wales also benefits from EU funding streams which are directly managed by the European Commission. These include around £25 million to date under the Horizon 2020 programme (2014-2020) to support research, including £7 million from the EU for the Welsh Government's £17 million COFUND to help grow Wales' world-class scientific research capacity. Other opportunities exist under funds to support SMEs (COSME), the creative industries (Creative Europe), transport, energy and digital links (the Connecting Europe Facility), the environment and climate action (LIFE) and opportunities to study abroad (ERASMUS Plus). WEFO has published a mapping of these directly managed funds on its web-site.

4. The Investment Plan for Europe

The Investment Plan for Europe, commonly known as the Juncker Plan, aims to tackle Europe's crisis of underinvestment, through mobilising €315 billion of additional, principally private sector, investment over the next three years through financial instruments in the form of loans and equity investments. To an extent this signals a departure from the traditional grants-based approach. The Plan is one part of the European Commission's wider growth agenda and is accompanied by a number of growth-promoting reforms in the areas of better regulation, the Capital Markets Union and eliminating barriers within the Single Market. It has three pillars:

- The European Fund for Strategic Investments (EFSI), which is operated by the European Investment Bank and is worth €21 billion and which is used as a risk-bearing guarantee for major strategic investments in the real economy.
- The European Investment Advisory Hub to help with project identification, preparation and development
- The European Investment Project Pipeline to which promoters are invited to submit their projects with the aim of fostering transparency and visibility.

The Fund provides more financing for the riskier schemes that the EIB would usually support, rather than reflecting an increased risk appetite, and to date about twenty projects have been supported through the Fund.

The Welsh Government is exploring opportunities presented by the European Investment Bank to increase investment in Welsh infrastructure, including consideration of the European Fund for Strategic Investments and is encouraging project promoters in Wales to do the same.

The EFSI could potentially provide public and private project sponsors in Wales with access to repayable finance – including in the areas of transport, energy, innovation, research, education, the digital market and support for SMEs.

The Welsh Government has identified potential Welsh projects on the UK's indicative investment pipeline, which was presented to the European Commission at the end of last year. These include Velindre Cancer Centre, Anglesey Energy Island; the Swansea Bay Tidal Lagoon; the SA1 Innovation Quarter; the Green Growth Fund and the Metro.

The Minister for Finance and Government Business has discussed the Plan with senior EIB officials on several occasions and Official-level contact with the Bank is ongoing. Moreover, the Hub held its first workshop in Wales in November, which brought together key personnel from the European Investment Bank, the European Commission and around 70 representatives from the public and private sectors in Wales.

5. The European Union and the UK – Perspectives

The effect/cost of regulation

The aims of the Single Market are to ease trade through reduced trade barriers and restrictions. The Single Market provides a consistent trading platform across the Union which help foster more competitive and effective markets, thereby increasing the choices for consumers while reducing costs, and affording companies the potential to benefit from greater economies of scale.

The European Commission, as part of its drive to boost jobs and growth, aims to demonstrate strong commitment to better regulation. Its own legislative programme is more streamlined than its predecessor and the Commission declares its ambition of “being big on the big things, and better in how we deliver them”.

The economic impact of UK leaving the European Union

As part of the Single Market, the UK benefits from:

- The availability of cheaper consumer goods and/or inputs – through competition, economies of scale, a reduction in legal barriers, tariffs and other transaction costs;
- Increases in the variety of goods and services available for consumption
- Mobility of labour across the Union;
- Platforms for innovation;
- Increased access to skilled labour;
- Increased investment; and
- Increases in technology diffusion.

The overall economic impact for Wales of an exit from the EU would be enormous. Many thousands of jobs are dependent on EU trade and many investing companies rely on the Single Market for their business strategy. No one can predict with any kind of accuracy what circumstances would emerge following a withdrawal. Clearly the UK would need to negotiate dozens of trade agreements around the world which would be challenging, time-consuming, uncertain and costly.