

Wales and the manufacturing industry most at risk from a “hard Brexit”

- Devolved nations of Wales and Northern Ireland the regions most vulnerable to risks posed by Brexit, according to a new study by the think tank, Demos, due to their reliance on EU funding, high level of exports to the EU and, in the case of Northern Ireland, a large number of European workers.
- London and the North East of England are also at risk, given a large European workforce and a high number of exports to the EU respectively.
- Manufacturing, agriculture, and energy are sectors likely to be worst hit by a hard Brexit, due to a difficult mix of high numbers of EU workers, high levels of exports to the EU, and the likelihood of high tariffs on their products.

In a new report, leading cross-party think tank identifies Wales, Northern Ireland, London and the North East of England most vulnerable to the risks of a “hard Brexit”.

Despite voting in favour of leaving the European Union, **Wales** stands to be the region worst hit by the UK’s departure from the EU. Wales, is also one of the UK’s two leading exporters to the European Union, with over 60% of its exports going to the EU, and so would be most affected by potential tariffs. **London** and the **South West** export just over 40% of their goods to the EU – the lowest of any regions, but still a considerable proportion.

The devolved nations of **Wales** and **Northern Ireland** are also threatened by the loss of EU structural funds, which Wales benefits from far more than any other British region, with grants from EU funds representing almost 1% of the region’s Gross Value Added annually.

If the UK also leaves the Single Market – resulting in much lower immigration from the EU – **London** is at high risk of a significantly diminished workforce, given 17% of its current workers come from the European Union. **Northern Ireland** would be the region next hardest hit by restrictions on European workers, as almost 8% of its labourforce are EU nationals.

The figure below shows the three major risks to regions following the UK’s departure from the EU, demonstrating **Wales** and **Northern Ireland** as most vulnerable to all three risks, followed by the **North East** and **London**.

Region	Risk from loss of EU workers	Risk from loss of exports of goods to the EU	Risk from loss of EU funds
South East	Medium	Medium	Low
London	High	Medium	Low
East	Medium	Medium	Low
East Midlands	Medium	Medium	Medium
North West	Low	Low	Medium
Yorkshire and Humber	Low	Medium	Medium
West Midlands	Low	Low	Medium
South West	Low	Low	Medium
Scotland	Low	Low	Medium
North East	Low	High	Medium
Northern Ireland	Medium	Medium	High
Wales	Low	High	High

Brexit will also likely result in the UK leaving, or retaining only partial membership of, the Customs Union. With tariffs imposed on British goods at the levels currently faced by non-EU states, industries at risk of being hit by the highest duties will be **agriculture, forestries and fishing; mining and quarrying; and manufacturing**. As a result of

tariff changes, UK producers of **dairy products, confectionary, alcohol and tobacco** will be hit with the costliest duties, with the highest tariffs of exports into the EU at 33.5% for dairy produce.

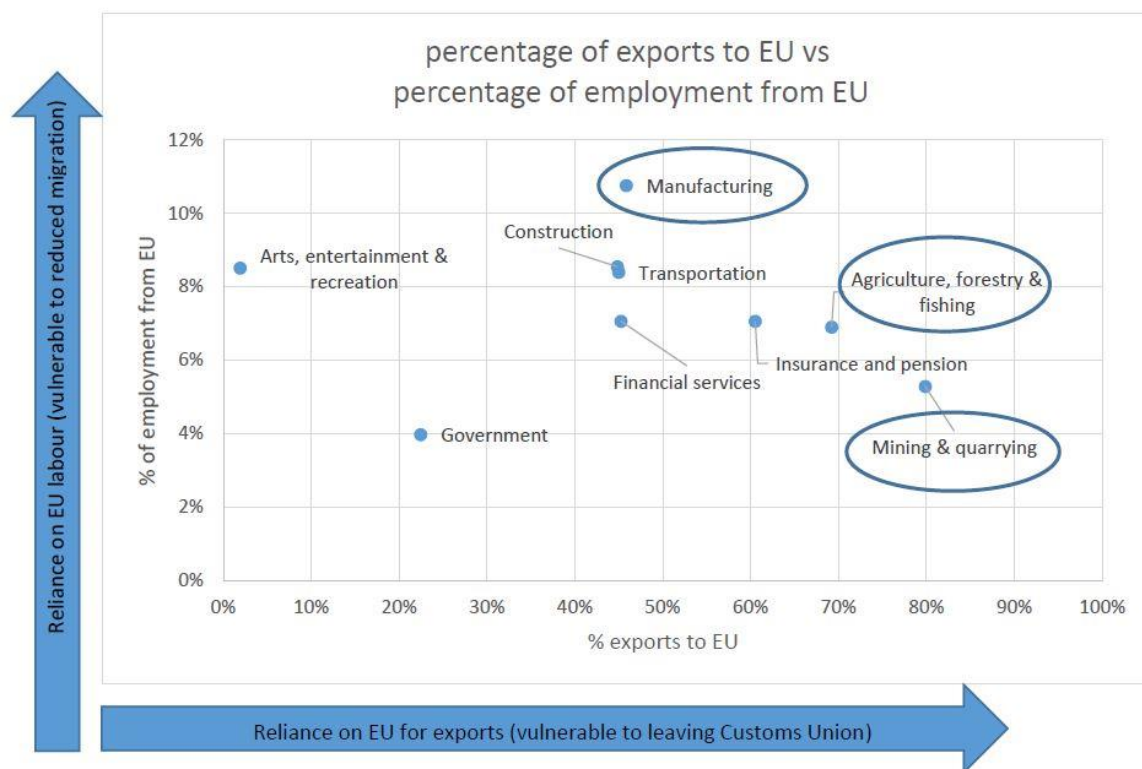
Manufacturing will also be particularly vulnerable to the threat posed by reduced immigration from and trade with the EU, given 1 in 10 of its workers come from the EU and a significant proportion of export products go to the EU (45%).

Much debate so far has centred around concern about the loss of lower-skilled workers, but Britain also needs to prepare for a significant shortage of labour in high value added manufacturing and engineering. This research highlights the need to use Brexit as an opportunity to fundamentally rethink and “level up” the economy towards high skills and high productivity, looking beyond immigration policy, to encouraging investment in education and adult skills.

Agriculture and **energy** are at particular risk too, employing a moderate level of EU nationals (5-7%), but exporting a very high proportion of products to the rest of the Union large amount they currently export to the rest of the Union – (agriculture: 69%, mining and quarrying: 80%).

Financial services, construction and **transportation** also face significant risks, given their reliance on the EU as an export market and supply of labour.

In the figure below, the top right quadrant is where sectors are most vulnerable to a shortage of EU labour and loss of trade. Those sectors circled are at significant risk on both dimensions



Methodology

The findings of this analysis assume leaving the EU involves leaving the Single Market (and immigration from the EU will be much lower) and the Customs Union (and the UK will face tariffs from the EU on goods exports at the current rates facing non-members). It also assumes that the UK will no longer receive EU Structural Funds and that these will not be replaced by the British government.

The study does not attempt to analyse potential for future trade deals outside the EU, the potential impact of UK-imposed restrictions on trade or the potential gains from being outside the Customs Union, all of which could potentially mitigate the risks identified.

About Demos

Demos is Britain's leading cross-party think tank: an independent, educational charity, which produces original and innovative research. Visit: demos.co.uk

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