The Referendum: Seeing the EU through the Trees

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In…out…in…out – is it time to come out of the EU? A frequently heard comment is that people want the facts so they can make up their own minds so that's a good place to start when looking at some of the issues for the forestry sector.

This discussion paper examines:

- Direct Financial Support from the EU
- Regulations, Red Tape & Bureaucracy
- Trade
- Plant Health
- Labour Market & Controlling UK Borders
- The Economy

Direct Financial Support from the EU

Grant Support to Woodland Owners.

Owners of woodlands in the UK have the opportunity to receive direct financial support for woodland activities through grants offered under each country's Rural Development Plans. The total annual amounts for the period 2014 – 2020 are summarised in table 1.

Table 1 Rural Development Programme Total Grant Support Budgets for Woodland Owners in Britain 2014 - 2020

Country	Annual Grant Support Budget
England	£31.0 million
Scotland	£36.0 million
Wales	£10.3 million
Northern Ireland	£3.1 million
Total	£80.4 million

There are other grant schemes that are potentially open to woodland owners and small forestry related businesses such as the Sustainable Management Scheme in Wales, Leader Programmes and Environmental schemes. Approximately half the amount comes from the EU through the European Agricultural Fund for Rural Development (EAFRD). In the case of Scotland, the EU's contribution to forestry grants represents 55% of the total. In England the amount is 75% because the grants for the forestry measures have been accepted as contributing to objectives of environment and of climate change mitigation and adaptation, which allows a higher percentage contribution from EU funds.

Income Support to Forest Research.

The Annual Report and Accounts for Forest Research show that the organisation has received funding from the EU over the last three years and the amounts are shown in Table 2.

Table 2 Income Received by Forest Research from the EU

Year	Amount
2012-13	£486,000.00
2013-14	£531,000.00
2014-15	£783,000.00

The UK is also a member of the ERA-NET+ WoodWisdom project to which it is contributing £300,000 (a combination of Forestry Commission GB, Forestry Commission Scotland, and Scottish Enterprise funding). The value of the projects the UK contribution is supporting comes to £3.6m, which is significant leverage. Another recent project was the 3-year £1.5 million Wood Product Innovation Gateway project where the EU contributed 45% of the total through the European Regional Development Fund (ERDF). The UK also has access to the EU's Research and Innovation programme called Horizon 2020 which has a budget of nearly €80 billion of funding available over 7 years (2014 to 2020).

Other Grant Support.

There are grants through other EU funds that woodland owners or companies in the forestry sector may be eligible for, or could benefit from through Government Departments or Agencies. One relates to Infrastructure through the European Rural Development Fund (ERDF) and the focus is usually on issues in more remote areas such as Cornwall and the Scilly Isles in England for example. In Scotland the fund has provided financial support for investment in roads. Regional Selective Assistance (RSA) is also available from the same fund for limited companies, sole traders or partnerships in an 'assisted area' provided the project involves an element of capital investment, it creates or safeguards jobs and does not result in job losses elsewhere.

Training grants are also available to businesses through the European Social Fund. There is also the Erasmus+ EU programme that provides opportunities for people of all ages, helping them develop and share knowledge and experience at institutions and organisations in different countries. It is also open to a wide range of organisations including universities, education and training providers, think thanks, research organisations, and private businesses.

We can identify where the UK forestry sector gets, or can get financial support reasonably well so the question is whether a UK that is outside the EU will see the individual country governments match, or increase the level of financial support for the forest sector that is available as a member of the EU? The other equally important question is whether the agricultural sector would receive the same level of financial support, or more from a UK that is outside the EU as it does now under the Common Agricultural Policy? Of course, a UK outside the EU might see country governments decide to raise, or lower, the level of overall financial support they give to both agriculture and forestry, and take different decisions on direction from each other. Lowering the financial support for agriculture relative to forestry could well benefit the forest sector by encouraging more larger-scale tree planting.

Regulations, Red Tape & Bureaucracy

For those who owned woods or practised forestry 30 or more years ago the challenge now of trying to get things done, or claiming grants, can seem a nightmare. The prospect of leaving the EU and getting rid of it all sounds something like paradise. Something that seems so good should perhaps be looked at a little more closely.

In a fairly large number of cases individual member countries in the EU are left to make their own interpretation of the EU's directives. This may be why some other countries appear to have a more relaxed approach to the delivery of certain EU programmes. Could it be that the UK 'gold plates' EU directives as that it is what it is used to doing? If so, will the UK be happy to give the practice up if the UK leaves the EU?

The various country payment and inspection agencies across the UK are often cited as the reason for all the detailed paper work and difficulties associated with grant scheme applications. Under current European Union (EU) regulations, these agencies must carry out a number of inspections each year to confirm that conditions are being met in return for payments made under the various schemes to check that the details given in declarations and claims for payments are correct, and current legal and administrative rules are being met. Most of these inspections are carried out by UK nationals in UK based organisations in conjunction with a few auditors from the EU who carry out visits across the whole rural development programme and across all member states to ensure that all member states get their fair share. These are supplemented by country auditing agencies, for example, in Scotland, Audit Scotland carry out annual checks on forestry grant schemes on behalf of the EU. If the UK left the EU, there would obviously be no need for the EU auditors, but would it then mean that the UK government would not be concerned about how any public funds were spent and so become much more relaxed about the expenditure of public money?

There are also the other perceived sources of EU regulation that can be issues for many businesses such as the Working Time Directive, Health & Safety, pension payments and landfill taxes. Would a UK Government remove some or all these pieces of legislation outside the EU, or perhaps make them voluntary, and if they did, would the electorate be happy?

Trade

The word 'trade agreements' and 'common market' are frequently used as if the two are inter-changeable whereas in reality they are not. Being part of the European Common Market means that companies and individuals in member countries can offer products and services that meet common standards to a market of 508 million people. At present the UK is influencing, or is in a position to influence the setting of those standards, for example, timber stress grading, although some do not always appear to be necessary, or to our liking – but of course they might have been worse if we hadn't been there.

If the result of the referendum is that the UK leaves the EU, the UK Government will have to enter separate trade agreements with the EU as well as other countries round the world. The main attraction in being able to do this is usually cited as being that it will allow the UK the freedom to negotiate separate tariffs levels on trade between the UK and the country concerned, but selling products and services to these other countries will also require UK businesses to meet the standards set by those countries for supplying products and services to their markets. If the UK Government decided to became a member of the European Economic Area (EEA), it would have to implement all EU laws relating to the EU market, or if it decided to join the European Free Trade Association (EFTA) as a member it could comply with EU legislation on a case by case basis, but most members have adopted the ones relating to trade with the EU.

It could be argued that as the UK is a net importer of wood and wood products, the issue of trade is of little importance to the UK forestry industry based on the domestic timber resource. This overlooks the fact that some companies in the forestry sector in the UK are exporting to countries in the EU so their products will have to meet EU standards if they are to continue to export. However most of our imports of wood and wood products come from countries within the EU, or countries that have agreed to meet EU regulations and standards for wood and wood products, such as the EU's Construction Product Standards and the EUTR. If UK produced wood and wood products are of a lower standard to similar imported products, will they still be able to compete successfully against imports?

Plant Health

Tree disease is a major concern given the recent outbreak of various pests and diseases that is affecting commercial tree species, such as Larch and Ash, as well as other tree species that are used for landscaping or horticultural purposes. One obvious and very appealing way to reduce the risks associated with them spreading to the UK would be if the UK could get total control of its borders such as occurs in New Zealand and Australia – although nothing could stop airborne pests and diseases. What would this mean in practice? In 2013/14 the UK imported £324 million worth of plants, £598 million worth of cut flowers (Horticultural Development Company (2014) and £5.060 billion worth of fruit and vegetables (Defra, 2014). If the outcome of the Referendum is that the UK comes out of the EU, would it be possible to stop the trade given its scale so the UK became totally self-sufficient? Alternatively, would the UK Government be prepared to commit sufficient resources to carry out thorough inspections of all plants and the soil they are in, flowers, fruit and vegetables in all containers and trucks coming into the UK and to operate strict quarantine arrangements given the scale of imports? The degree of risk associated with importing plants and plant material, flowers, fruits and vegetables undoubtedly gets less as the quantity of material imported reduces, but the risk cannot be totally eliminated. There is also the risk that humans may bring in pests and diseases on their shoes or clothes. In 2014 the UK received approximately 34 million visitors from around the world and UK residents made 60.1 million visits overseas. How would it be best to tackle this issue?

Labour Market & Controlling UK Borders

The free movement of people is a fundamental tenet for the EU, and it also applies to Non-EU members of the EEA and to EFTA members, but the UK has opted out of the Schengen arrangements. Although there is no information about how many people from other EU member countries are working in the UK forestry sector, word of mouth information suggest that some are involved with most parts of the sector such as tree planting, tree harvesting, transport and sawmilling. If the Referendum outcome is that the UK leaves the EU, will these people leave and, if they do, who will replace them?

The Economy

There is little the forestry sector can do about how international investors and money markets will perceive the UK's future economic prospects, and Sterling as a currency, if the outcome of the Referendum is that the UK decides to withdraw from the EU. If investors and markets view the withdrawal unfavourably, Sterling could well devalue relative to the currencies of our main trading partners which would be a major benefit for our domestic wood processing companies, but a problem for companies involved in the importation of wood and wood products. It could also have the knock on effect of increasing the cost of imports for consumers for all products as well as increasing interest rates as higher interest rates may be required in the longer term to attract overseas investors to fund our current account deficits and Government debt. If interest rates increased it could have a major knock-on impact on the house building and construction activity which is an important market for UK grown timber.

At present international investors appear not to like the uncertainty associated with the unknown outcome of the Referendum and so Sterling is showing signs of weakening compared with other currencies. If the outcome is that the UK is going to withdraw from the EU, there will be at least two years of negotiations so the uncertainty is likely to continue as far as international investors are concerned so Sterling is likely to remain weak. If the outcome of the Referendum is that the UK is to remain a member of the EU, it is very likely that Sterling will strengthen very rapidly and this will make it tougher for UK producers of wood and wood products to compete against imports.

Bigger Issues

There are also some major issues that people hold strong personal views about such as the sovereignty of the UK parliament and the right to determine our own laws; the need to control the number of people coming in to the UK, and the need to control our security better. For others it may be the need for long term political stability in Europe. Individuals may personally feel these issues are of much greater significance than any connected with the forestry sector identified in this paper.

If people working in the forestry sector want to consider the issues facing the sector in making their decision, there are some facts for people to use, but there are also plenty of unknowns.

About the author

Guy Watt is Managing Director of John Clegg Consulting Ltd. The company undertakes a wide variety of business and economic consultancy assignments related to the forest sector as well the wider rural economy in the UK. More recently clients have included individuals, companies, charities, trade organisations, Scottish Enterprise and the Forestry Commission.

Before starting the company 14 years ago, he was a partner in John Clegg & Co. His working life started in the Solomon Islands which was then followed by four years as a Scientist at the Forest Research Institute in New Zealand. On returning to the UK he worked as a Forest Economist with the Economic Forestry Group for 10 years. He has also completed assignments for the Department for International Development, FAO, UNDP, the Asian Development Bank and the NZ Ministry of Foreign Affairs in South Pacific, Asia, Africa and Central and South America.

Guy is a member of the Scottish Forest & Timber Technology Leadership Group, a Trustee of Scotland's Finest Woods Awards, a past Chairman of the Scottish Forestry Trust and he was Vice Chairman of the Central Scotland Forest Trust for a number of Years.

April 2016

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