

Shaping a post-EU future for the UK forestry sector

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Written by Martin Glynn

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Executive Summary

Brexit could potentially have major implications for the forestry and timber sector across three broad areas: public funding; regulation and legislation; timber and markets.

Public funding

The UK is due to receive €5.2 billion through The European Agricultural Fund for Rural Development for 2014-20. Annual spend on woodland creation and management across the UK is £80 million. The future of this fund will be a major issue, with the potential to have a real impact on forestry. There are many competing areas of expenditure, and an amended programme of support for rural development, including agriculture and forestry, is likely.

Policy on rural development is devolved, but allocation of funding for CAP-supported activities is decided at EU and UK level. Full devolution or agreement on budgets between Westminster and the devolved administrations is needed. A lack of certainty over future funding may act as an immediate disincentive to larger new planting applications.

Legislation and regulation

Environmental Impact Assessment (EIA): repeal of EIA legislation, or significant amendment, has the potential to remove or lower this barrier to afforestation.

Birds and Habitats Directives: potential impact of leaving the EU is likely to be limited given other relevant international agreements, though individual countries could propose amendments to reflect the particular concerns of those countries.

Plant Health: impact depends on UK's position with the single market. Leaving it would give an opportunity to implement stricter requirements on the importation of plant material.

Employment and Health & Safety Law: if the UK remains in the single market, there is unlikely to be significant change. If the UK leaves the single market, employment law could be a priority for repealing EU-based law, resulting in major changes.

Trading and markets

Currently the UK benefits from the free trade of goods in the European Economic Area (EEA). Continuing EEA membership would mean complying with EU regulations relating to the free movement of goods, services, capital and labour. If the UK rejected free movement of labour, it may have to abandon the EEA and negotiate separate bilateral agreements.

Seasonal migrant labour is important in sub-sectors such as tree nurseries, establishment and machine operating. Delays in recruitment of seasonal labour would create challenges.

EEA membership requires adherence to its standards and regulations for timber products.

If the UK decides to reduce farm subsidies, land prices could fall, making forestry more attractive (as an alternative land use) and more viable.

Foreword

The United Kingdom has made a huge and lasting decision in voting to leave the European Union. That decision will have a significant impact on rural communities and businesses across the UK, including those reliant on forestry and timber.

The process of shaping the future of our rural sector will take time and we are at a very early stage. However, it is important to start thinking about what the future might look like and we very much welcome the informed, detailed and thoughtful contribution made by Confor at this early stage.

Before the vote, Confor's discussion paper 'The Referendum: seeing the EU for the trees' laid down the key areas where leaving the EU might impact upon the forestry and timber sector. This very helpful paper created a framework for discussion at the APPG on Forestry meeting in April, when MPs in favour of the Leave and Remain positions argued their case.

After the decision to Leave, Confor has taken a more detailed look at what is likely to change in the forestry and timber sector as we face up to a new reality. This report provided a welcome basis for discussion at the first APPG on Forestry meeting after the Brexit vote.

It was heartening to see so many different interest groups represented at the two most recent APPG on Forestry meetings and we welcome Confor's efforts to bring together different stakeholders and to collaborate with all those interested in forestry and broader rural policy. A strong, united voice is important as we sail into uncharted waters.

The forthcoming Environment, Food and Rural Affairs Committee (EFRA) inquiry into forestry will also help the sector to shape the future. Never has Confor and its allies had a better chance to influence rural policy. This latest publication and the APPG on Forestry discussions shows Confor is more than up to the task.



Anne-Marie Trevelyan and Chris Davies pictured with Confor Chief Executive Stuart Goodall (centre)

We therefore commend this report as
an excellent framework to shape the future of rural policy in the interests of the forestry sector, and of our rural communities as a whole.

Anne-Marie Trevelyan
*MP for Berwick-upon-Tweed and Vice-Chair,
All-Party Parliamentary Group on Forestry*

Chris Davies
*MP for Brecon and Radnorshire and Chair,
All-Party Parliamentary Group on Forestry*

Introduction

We are living through times of great change and uncertainty and, at times like this, leadership is needed.

That's why Confor laid down the key issues for the forestry and timber sector ahead of the EU referendum, and why we reacted quickly to develop those issues in more detail after the vote to leave. It is crucial to promote the sector's interests strongly and visibly at times of great change.

The sector is asking a lot of questions and we cannot answer all of them at this time. There is much discussion and negotiation ahead to shape the future of the United Kingdom after Brexit.

What we have done in this report is lay down a framework, to inform and guide our members through the challenging months and years ahead. There is more detailed work to be done, but the potential impacts highlighted by Martin Glynn in this report provide an excellent basis for businesses to think about how they react to Brexit in a considered and appropriate way. I also hope that this report is helpful for policy-makers and all those interested in the rural sector.

Confor will continue to work closely with all parties to deliver successful outcomes for the rural economy. However, while working hard to shape future policy, we must not be consumed by Brexit. The success of our sector depends upon greatly enhanced tree planting and we must address that issue here and now, as planting levels are unacceptably low.

The current uncertainty over funds for new planting is an immediate issue that needs addressing if we are to avoid a damaging pause in proposals to plant new woodland.

Finally, I'm delighted that the All-Party Parliamentary Group on Forestry has published this report and I would like to thank all members of the group, especially Chris Davies MP and Anne-Marie Trevelyan MP for their enthusiastic and informed support for the forestry and timber sector.

Stuart Goodall



Chief Executive, Confor

Policy recommendations

Annual payments for tree planting are paid for up to 10 years, co-funded by the European Union under the Common Agricultural Policy (CAP). In order to ensure delivery of targets for tree planting, the UK government **must** provide immediate assurance that support for planting new forests through the Countryside Stewardship grant scheme (and its equivalents in devolved administrations) will be maintained beyond the date that the UK leaves the European Union.

In addition we want the Government to:

- 1) Recognise forestry's growing importance as a land use in any agricultural or wider rural policy developed post-Brexit, especially the wide range of economic, environmental and social benefits provided by forestry and timber, and ensure that forestry is not disadvantaged as government develops future policy and support for rural areas outside of the CAP;
 - 2) Consider carefully independent studies [e.g. Eskdalemuir] which show the relative benefits of forestry to other land uses in terms of rural employment and economic benefits;
 - 3) Ensure future trade and immigrations arrangements reflect the importance to forestry and the timber trade of free movement of labour; and
 - 4) Acknowledge the devolved nature of forestry within the UK and involve all nations of the UK in agreements impacting on the forestry sectors in their respective administrations.
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Contents

1.	Overview	1
2.	Legislative & Regulatory Affairs	2
2.1.	Environmental Impact Assessment (EIA)	2
2.2.	Birds and Habitats Directives	4
2.3.	Plant Health & Quality	5
2.4.	Employment and Health & Safety Law	6
3.	Public Funding.....	7
3.1.	European Agricultural Fund for Rural Development (EAFRD)	7
3.2.	European Regional Development Fund (ERDF) and European Social Fund (ESF)	9
3.3.	EU Programmes	10
3.4.	State Aids	11
4.	Trading & Markets	11
4.1.	Goods.....	11
4.2.	Labour	12
4.3.	Timber.....	12
4.4.	Renewable Energy	13
4.5.	Land	14

1. Overview

In April 2016 Confor produced a Discussion Paper on the issues relating to the Referendum on Leaving the European Union¹. Now that the outcome of the Referendum is known, this paper aims to identify the range of potential impacts on the sector and how these could be managed during the exit process.

Although not included in the Treaty of Rome, and thus outside the ‘competency of the EU’, forestry is impacted upon by the Union in a number of ways. For the purposes of this paper these impacts are defined as being of three types: -

- Legislative & Regulatory Affairs
- Public Funding

Sector Segment →		Nursery	Establishment	Harvesting	Haulage	Processor
Impact ↓						
Legislative & Regulatory Affairs	EIA Regulations		✓	✓		
	Birds & Habitats Directives		✓	✓		
	Plant Health & Quality	✓	✓			
	Employment and Health & Safety Law	✓	✓	✓	✓	✓
Public Funding	EAFRD	✓	✓	✓	✓	
	ERDF & ESF					✓
	EU Programmes	✓	✓	✓		
	State Aids	✓	✓	✓	✓	✓
Trading & Markets	Goods	✓	✓	✓	✓	✓
	Labour	✓	✓	✓	✓	✓
	Timber & Construction			✓	✓	✓
	Renewable Energy			✓	✓	✓
	Land	✓	✓			

Fig 1. Summary of referendum impact on the forestry sector supply chain

Clearly there will be impacts across these headings – for example, changes in legislation may impact on the ability to access or benefit from markets.

Impacts will be both sector specific – such as in the case of funding for woodland creation and management – and non-sector specific – such as any changes to legislation that derives from the Working Hours Directive. There is likely to be greater opportunity for the sector to influence the former. The impacts will vary across the sector, depending on the segment concerned. Fig.1 suggests where the main short to medium term impacts might be.

2. Legislative & Regulatory Affairs

Legislation governed by the EU falls into one of two types – Directives or Regulations. Directives are decided at EU level but have to be transposed into legislation by individual countries before they become law in that country. The Directive will lay down by what date countries have to transpose Directives and the minimum requirements for the legislation (usually results defined) but leave discretion as to how this is achieved. Regulations are also decided by the EU but become law across the EU without further enabling legislation in individual countries.

This is relevant in that, in broad terms, once the UK exits the EU Regulations will by default lapse, whereas Directives will still apply given that they are enshrined in legislation, either primary or secondary, which will need amending or repealing before they are affected. The exact situation will be determined by whether the European Communities Act is repealed, which in itself would cause any secondary legislation introduced through that Act to fall.

The following list outlines some of the main issues of concern for the forestry sector. Other issues which will require further exploration include the Water Framework and Floods Directives, invasive non-native species and pesticide regulation (as recently evidenced by proposals to limit the use of glyphosate). Amendments to the regulations affecting the haulage industry could also impact significantly on the sector.

2.1. Environmental Impact Assessment (EIA)

Current Arrangements

The EU EIA Directive (85/337/EEC) has been in force since 1985 although amended on a number of occasions, most recently in 2014.

The Directive requires certain listed public or private projects to undergo an EIA. Most projects relating to forestry fall into Annex II projects, those which the member state has discretion to decide what projects should require an EIA.

The types of forestry developments potentially requiring an EIA include afforestation, deforestation, roads and quarries. Thresholds are set above which projects may require an EIA, subject to a screening process. Thresholds are set by individual countries within the UK and thus vary, but the screening process is the same.

Developers of projects above the threshold have to request a determination from the ‘competent authorityⁱⁱ’, which indicates whether an EIA statement is required.

Options for Future Arrangements

As a Directive, and thus enshrined in UK legislation the requirements for EIAs will not automatically change if the UK exits the EU. The legislation would have to be amended or repealed before any changes came into effect. In most cases the EIA Directive is brought into effect via Statutory Instruments (‘Regulations’) which do not require primary legislation to amend or repeal.

The 2014 amendment to the EIA Directive has yet to be transposed into UK legislation but is required to be by May 2017. Thus the immediate question is whether this will happen. Although not specific on the subject, Article 50 of the Lisbon Treaty does not allow for any suspension of the adoption of new or amended EU legislation during the two year negotiation period and thus in theory the amended Directive will have to be transposed into UK law.

Options for future arrangements include: -

- Retention of the legislation as framed at the time of leaving the EU.
- Introduction of new EIA Legislation.
- Removal of EIA Legislation altogether.

Any future arrangements will probably be based on individual countries as devolved matters. Significant differences in arrangements between countries has the potential to amplify the impact overall.

Potential Impacts

Repeal of EIA legislation, or its significant amendment, has the potential to remove or lower one of the barriers to increased rates of afforestation, given that the Regulations have reportedly discouraged afforestation proposals due to the potential costs and time delays in meeting the requirements.

Controversial afforestation schemes could lead to increased tension with stakeholders including NGOs and the farming sector, unless a framework is in place to regulate. Deforestation could become easier although other UK law such as Felling Licences and non-regulatory processes such as certification could limit the impact.

The creation of new roads and quarries could become simpler although UK planning legislation would not in itself be changed.

2.2. Birds & Habitats Directives

Current Arrangements

The Birds Directive is the EU's oldest environmental legislation and was introduced in 1979. The Habitats Directive was adopted in 1992. Together, they form the primary legal basis for the EU Biodiversity Strategy and represent the means by which the EU meets the Bern and Bonn Conventions. The Directives are transposed into UK law through a variety of primary and secondary legislation, both on a UK and individual country basis.

The provisions of the Habitats Directive require Member States to introduce a range of measures, including the creation and management of Special Areas of Conservation (SACs) and Special Protection Areas (SPAs), the protection of certain species of animals and plants, and the monitoring and reporting on the status of certain species and habitats. Lists of protected and priority species and habitats, regularly updated, form part of the Directive.

The Birds Directive similarly provides for protection of all wild birds through a range of measures, as well the identification and conservation of certain priority species.

Options for Future Arrangements

As with EIA, as a result of originating from EU Directives the relevant UK law would remain on the statute book following an exit from the EU, and would require primary or secondary legislation to remove or amend it. In theory the options are the same as with the EIA legislation i.e. retention, amendment or removal, but as the UK is a signatory ('Contracting Party') to the relevant international conventions (Bern and Bonn Conventions), and assuming it did not wish to withdraw from these, there would have to be legislation in place which met the requirements of the Conventions. Thus the most likely option is retention of the existing arrangements, with individual countries being freed to amend as they considered necessary, within the constraints of the relevant Conventions.

Potential Impacts

Given the likely outcome described above, the potential impact of leaving the EU on these particular areas of legislation is likely to be limited, and only emerge over time. Individual countries could propose amendments which would have to be consulted on and may reflect the particular concerns of those countries, for example the seasonality of certain restrictions on work in woodland, or species or habitats to be provided with particular protection.

2.3. Plant Health & Quality

Current Arrangements

Plant Health within the EU is governed by an EU Directive (2000/29/EC) which is further supported by a number of Control Directives and Emergency Measures. This aims to prevent the introduction of harmful pests and diseases into the EU or to limit their spread within the union if it is present. It provides the basis on which plants can be traded between member states and imports into the EU are permitted. It also implements the principles of the International Plant Protection Convention (IPPC) to which the UK is a Contracting Party. The Directive is transposed into UK law through a variety of legislation e.g. Plant Health Orders.

Plant material and timber is freely tradable within the EU and Switzerland (unless it is included within a restricted list) but certain requirements may be placed on specific species as a result of plant health concerns. At present, this includes Ash, Oak, Pine and Sweet Chestnut, all of which require a Plant Passport before being moved from one EU country to another. Regulations require notification to the relevant authority of the 'first import of each consignment' (i.e. not subsequent movements within the UK) and inspections may take place. The UK cannot place restrictions on the import of plant material from other EU countries without the approval of the EU.

Plants and timber from outside the EU are subject to different control measures. All plants intended for planting are considered to be 'controlled' material and must have a phytosanitary certificate issued by the country of origin to show it meets the requirements for entry to the EU. Phytosanitary certification is governed by World Trade Organisation (WTO) processes aimed at enabling the free flow of goods whilst protecting plant and animal species in the receiving country.

Plants grown specifically for forestry purposes (according to a definition set by each country) are also covered by the Forest Reproductive Material Regulations which implements EC Directive 1999/105. Forest Reproductive Material (FRM) is the generic name for the seeds, cones, cuttings and planting stock used in forest establishment. The 46 tree species and the genus *Populus* covered by the Regulations are known as the "controlled species". The purposes of the regulations are related to the genetic origin of the plants and their qualitative aspects, but the traceability requirements do have a role to play in reacting to plant health concerns.

Options for Future Arrangements

Plant Health and quality legislation in the UK results from EU Directives and thus will remain in place following the UK's exit, with the subsequent options being to retain, amend or remove it. However, unlike environmental legislation (see above), the outcome is likely to be dictated by whether the UK decides to remain within the 'single market'. If it does, then the

existing procedures will have to be retained. If not it would be possible to adopt new procedures, which in effect would probably mean adopting the rules for importing from non-EU countries to EU countries i.e. the necessity of phytosanitary certificates for controlled material. Most Plant Health legislation is secondary (i.e. is implemented through Regulations or Orders) and thus does not require parliamentary approval. There could also be the option to restrict the import (and export) of certain material if it was considered to be a particular threat to the UK, although this would still have to meet the principles of the IPPC and WTO.

Current EU plant health regulations have recently been reviewed and are scheduled for updating by 2019, with the two underlying principles of simplification and increased protection underlying the revisions, including a proposal for each timber consignment to require 'passport-ing' in order to provide traceability in the event of a plant health concern.

Potential Impacts

The impact on plant health will depend on the UK's position with the 'single market'. Leaving it would provide the opportunity to implement more stringent plant health requirements on the importation of plant material which could result in the reduction, or delay, in the introduction of new pests and diseases to the UK. Such restrictions would still have to comply with WTO principles and thus a 'blanket' ban is unlikely to be acceptable. In addition, with a land border with the EU (with Northern Ireland) and relatively short distances to continental Europe, any exclusion may only be temporary in some cases.

2.4. Employment and Health & Safety Law

Current Arrangements

A large body of employment and Health & Safety (H&S) law in the UK derives from EU legislation, primarily Directives which have been transposed into UK primary or secondary legislation. This includes the Working Time Directive, TUPE and Agency Workers Regulations. However, there is also a significant proportion of legislation which does not derive from the EU. In addition, the UK in many cases goes beyond the minimum requirements of EU law, such as in the field of equality and discrimination.

Options for Future Arrangements

Legislation covering areas where the UK goes beyond EU requirements, or had measures in place before the EU introduced them, such as equality and discrimination, are very unlikely to be affected. In theory, elements such as the Working Time Directive (WTD) and Agency Workers Regulations which have been unpopular with employers could be repealed. However, should the UK remain within the single market, it would have to comply with EU legislation. In respect of the WTD, the UK currently benefits from an opt-out which could be removed if the UK is not a member of the EU but remains within the single market.

Potential Impacts

If the UK remains within the single market there's unlikely to be significant change to most employment and H&S law, though the removal of the WTD opt-out could be a significant disadvantage for many employers. Should the UK leave the single market it's possible that employment law would be a priority for the repeal of EU based law, resulting in significant changes. Such changes could be heavily influenced by the nature of the UK government at the time, and whether Scotland seeks independence. These factors could lead to greater instability in the field of employment law than businesses have become used to in recent decades.

3. Public Funding

3.1. European Agricultural Fund for Rural Development (EAFRD)

EAFRD represents Pillar 2 of the Common Agricultural Policy (CAP) and funds rural development payments to farmers, foresters and rural communities. The UK is scheduled to receive €5.2Bn through EAFRD in the current framework period (2014 – 2020). The EU agrees a number of themes and principles for the funding but the details are set out in National Programmes, drafted by national governments and agreed with the EU. In the case of the UK these documents are prepared on an individual nation basis and thus the details of implementation schemes vary across the UK.

Current Arrangements

Woodland Creation & Management

EAFRD supports the creation and management of woodlands where this has an environmental or rural development benefit. New planting, the creation or improvement of habitats, restoration of forests following pest and disease incidents, reducing flood risks and improving access are amongst the eligible activities.

<i>Country</i>	<i>Annual Grant Budget</i>	<i>Grant Schemes</i>
<i>England</i>	£31.0 million	Countryside Stewardship
<i>Scotland</i>	£36.0 million	Forestry Grant Scheme
<i>Wales</i>	£10.3 million	Glastir
<i>Northern Ireland</i>	£3.1 million	Forest Expansion Scheme/Forest Protection Scheme/Woodland Investment Grant
<i>Total</i>	£80.4 million	

Fig 2. Summary of public funding and grant schemes in forestry

The production of timber per se is not a supported activity but many of the eligible activities will indirectly result in this. The previous tableⁱⁱⁱ details the amount of funding which the individual National Programmes have allocated to the forestry sector for woodland creation and management, and the schemes through which the funding is distributed.

Supply Chain & Timber Processing

The forestry supply chain and small scale timber processing sector also benefits from support through EAFRD with grants for machinery, training, buildings, innovation and collaboration. The extent to which the sector benefits varies between nations and forestry rarely has a 'ring-fenced' budget for such activity, instead competing with agriculture and other rural industries for a share of the funding. The delivery mechanisms also vary between nations, with the exception of Leader which is an EU wide scheme, although the nature of Leader delivery is different in each nation.

Options for Future Arrangements

The future of farm and rural support payments in the UK is likely to be a major issue in the coming months and years and one which has the potential to have a very significant impact on the forestry sector. Pillar 1 of the CAP (direct payments to farmers) has traditionally taken a significant proportion of the EU budget, and whilst it is on a declining trajectory it still accounts for approximately 40%. UK governments have indicated a consistent desire for these payments to reduce and for environmental payments to take a greater share of the budget. Whether this would include non-land based rural development is not clear, neither is whether the overall rural development budget would increase or just represent a bigger proportion of an overall farm and rural support budget.

During the Referendum campaign the Leave proponents indicated that payments would continue, however many competing areas of expenditure were also highlighted and could attract higher political attention. Conversely, should a weak pound lead to increased food prices and implications for inflation, maintenance of farm incomes through subsidies may be an attractive option for government.

Possible scenarios include: -

- i. Retention of the existing arrangements post 2020.
- ii. Withdrawal of all support for the forestry sector but maintenance of support for agriculture (direct payments and/or rural development).
- iii. Withdrawal of all rural development support.
- iv. Introduction of an amended programme of support for rural development including agriculture and forestry.

Given statements to date 'scenario iv.' is considered the most probable outcome. The focus of debate is likely to be on what activities are included (e.g. could timber production per se

become a supported outcome?), and to what extent they are grant aided and the details of grant scheme implementation.

Potential Impacts

The policy regarding support for rural development is a devolved matter and thus these issues will be for each national government to decide upon. However, the allocation of funding for CAP supported activities as a whole is decided upon at an EU and UK level and thus there will need to be either an agreement on budgets between Westminster and the devolved administrations, or full devolution of the matter. In either case, as there will be no common European framework on which this support is based there is likely to be greater divergence between national schemes and even to what extent they exist. This will in future be determined more by national economic, environmental and social interests, and the extent to which the sector can influence national policy. Significant differences between nations could see greater variation in the relative success of the sector and impacts on decisions as to where to invest in woodland creation, management and timber production.

Following the Referendum vote, the future of existing Rural Development Schemes and contracts issued through them is currently an issue of major concern for the forestry sector. Most land management agreements contain an element of funding over 5 to 10 years and a lack of security regarding this funding could be a major disincentive to future applications unless clarity is provided very soon. This could lead to a reduction in planting and woodland management with impacts on planting targets and trade for nurseries and contractors. Applicants with existing agreements are also seeking clarity on payments scheduled under those contracts.

The future of payments for equipment and training through the Leader schemes and other non-land based schemes is also in major doubt and most funders have been instructed to halt approval. Industry participation in future schemes is uncertain unless these problems can be overcome soon, and conclusively.

3.2. European Regional Development Fund (ERDF) & European Social Fund (ESF)

Along with EAFRD, ERDF and ESF are the other major EU Funds which make up the European Structural Investment Funds programme. ERDF supports projects which enable or promote economic development within discreet regions, primarily in ICT, innovation, SME development and supporting a shift to a low carbon economy. ESF focuses on 'quality' employment, labour mobility, social inclusion and training.

Forestry has not traditionally accessed these funds to any great extent, given that they cannot support 'in forest' activity. There have however been instances where they have supported local or regional projects which have addressed wider developmental or social needs. For example there are currently a number of projects in development which aim to

benefit from the low carbon priority within ERDF in order to support wood fuel markets and supply chains.

The UK government and national administrations have traditionally maintained support for economic development and training in addition to EU schemes and thus it is probable that leaving the EU will see a streamlining of such support, with greater variation across regions and nations as particular needs and opportunities are addressed. It is possible that more developed and successful areas of the UK e.g. South East England, could see such support withdrawn altogether, whilst some areas where forestry or timber production is an important component of the regional economy could see support increase. Should government decide to continue support for generic priorities e.g. growth of the low carbon economy, it may be possible for the industry to benefit from this even though not specific to the sector.

To date it has been possible to combine UK and EU public funding of projects to 100% (subject to state aid limits), but it is unlikely that such levels of public support would continue, requiring greater commitment from the private sector for such projects to succeed. Projects supporting awareness raising, facilitation and business development tended to attract a higher % of support compared to investment in capital assets and it is in these areas where the main challenge may arise.

3.3. EU Programmes

In addition to the funds described above, which are administered by national governments, the EU provides direct support for a number of other activities. These are delivered through a variety of grant schemes and focus on issues such as research and innovation, young people and transnational co-operation. Examples include Horizon 2020, LIFE and Erasmus+. Horizon 2020 has a budget of approximately €80 Bn in the period 2014 – 2020.

The forest sector, and in particular research and development activities, have benefitted from a number of these funds. Often these focus on particular subjects, such as plant health, the mobilisation of forest resources, timber in construction and involve a number of partners from EU countries participating in research, demonstration, knowledge transfer and dissemination.

Woodfuel is an example of an emerging market which has benefitted extensively from sharing experience with countries (Austria, Denmark, Sweden etc) which have much more developed woodfuel sectors than the UK.

The importance of such funding for UK forest research is underlined by the share of Forest Research's annual income derived from EU sources, increasing to £783,000 (6%) in 2014/15 from £486,000 (3.6%) in 2012/3.

Participation in these projects is not limited to EU member states. For example, Horizon 2020 extends to 15 ‘Associated Countries’ which includes most non EU European countries. Association Agreements have to be reached before such status is granted, upon which legal entities from these countries can participate on the same basis as EU member legal entities, including funding.

Ensuring that such Association Agreements are in place to ensure a seamless transition from EU membership to non-membership will be an important aspect of the exit negotiations.

3.4. State Aids

A state aid is a transfer of resources from the state to an undertaking (e.g. a company) which satisfies certain criteria (e.g. it could distort competition between states). The EU has a comprehensive set of policies and regulations relating to State Aids, including a number of Block Exemptions and other arrangements which permit State Aid under certain circumstances. Although UK would no longer be subject to these regulations upon leaving the EU, comparable arrangements exist within the EEA. Outside of the EEA, the concept of State Aids is enshrined in World Trade Organisation policies and agreements aimed at encouraging the free flow of goods between countries through the prevention of subsidies. Thus, in order to achieve trading agreements with other nations, including the EU member states, it will be necessary to have in place arrangements regarding State Aid. To what extent such policy in the UK will be more or less favourable to the sector will be an important area of negotiation prior to exiting the EU.

4. Trading & Markets

4.1. Goods

Currently as a member of the EU the UK benefits from the free trade of goods within the European Economic Area (EEA), which consists of all EU members plus three of the four European Free Trade Association (EFTA) members – Iceland, Lichtenstein and Norway. Switzerland is a member of EFTA but not of the EEA, but does have a bilateral agreement with the EU. Goods that can be traded freely include plants (subject to plant health regulations), machinery, chemicals, timber and timber products.

As such, membership or not of the EEA will impact directly upon most aspects of the forestry and timber processing sectors in the UK.

The UK’s future position will depend on what status it seeks following exit from the EU. Should it seek membership of EFTA it could, in theory, retain membership of the EEA, although this is not certain (as in Switzerland’s case). If it was to do this it would in all likelihood have to comply with most EU regulations relating to the free movement of goods,

services, capital and labour, and pay for this access. EEA membership does not cover the Common Agricultural Policy, Customs Union, Trade Policy or Home Affairs. Members of EFTA are also outside the 'Common External Tariff', meaning they can also sign bilateral treaties with non-EU states, which EU members can't.

If the UK was not willing to accept the free movement of labour, for example, it would not be able to join the EEA (although could still be a member of EFTA) and in order to access EU markets without penalty would have to negotiate separate bilateral agreements with the EU which did not include these conditions.

4.2. Labour

The extent to which migrant labour is used in the forestry sector is difficult to assess as no reliable data is collected. However, anecdotal evidence suggests that it is important in particular sub-sectors such as the nursery trade, establishment, fencing and machine operating. Many of these rely on seasonal labour to fulfil particular requirements, which migrant labour tends to have a disproportionate share of.

As described above, the ability to continue recruiting migrant labour will depend on the status of the UK after exiting the EU. Promoters of the Leave case have said that where industry can prove it needs migrant labour to operate this will be permitted. However, the speed at which such arrangements operate will be key to their success. Seasonal labour is by its nature frequently required at very short notice and any delays in its approval would render the system unworkable.

4.3. Timber

As the world's third largest timber importer, the UK has traditionally played a significant role in the formulation of timber trade policies and been at the forefront in their implementation. Many of these focus on the sustainability of supply and originate from concerns regarding afforestation in the tropics.

The EU published the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan in 2003. The Action Plan sets out a range of measures available to the EU and its member states to tackle illegal logging in the world's forests, including the European Union Timber Regulation (EUTR). This was adopted in 2010 and came into force in 2013.

The Timber and Timber Products (Placing on the Market) Regulation 2013 transposes the EU Timber Regulations into GB statute. The EUTR requires operators who place timber onto the market for the first time to exercise due diligence with regard to its origin and sustainability. In the UK the requirements of the EUTR are met largely through the Felling Licence system, reducing the burden for growers and operators.

The EU Timber Regulation (EUTR) was transposed into the EEA Agreement in May 2015, so the UK would have to maintain the requirements of the EUTR if it became a member of the EFTA with access to the EEA. If the UK was outside of the EEA it would in theory be possible to remove the requirements although the terms of any trade agreement could still require it, as could UK government policy.

The UK's future trading position will also dictate to a large extent the use of standards for timber products. These are commonly classified according to European Standards which are used by the EU to underpin much of the regulation it applies to the area, such as the Construction Products Regulation (305/2011/EU). Membership of the EEA would require adherence to these standards and regulations, although it may be possible to drop some requirements for timber grown and used in the UK. Similarly it may be possible to relax some aspects of CE marking which the UK has traditionally been reluctant to fully adopt.

Clearly with an industry as global as the timber trade, adoption of multiple standards and regulations is a source of significant cost. Therefore, even if in theory the UK did not need to meet some of the EU's requirements it is possible that the trade would continue to do so in order to minimise cost and reduce barriers to trade.

4.4. Renewable Energy

The EU Renewable Energy Directive (RED) establishes an overall policy for the production and promotion of energy from renewable sources in the EU. It requires the EU to fulfil at least 20% of its total energy needs with renewables by 2020 – to be achieved through the attainment of individual national targets. The UK is required to generate 15% overall, 30% of electricity and 12% of heat. Further targets are set for 2030 although as yet there is no agreement on how this should be achieved or individual country targets, which will be divided up through a process of 'burden –sharing'.

These targets have, in part, been behind the introduction of various incentive schemes, including the Renewable Heat Incentive (RHI) and Renewables Obligation Certificates (ROCs). Whilst the RHI has generally been credited with fostering the creation of the small scale biomass market in the UK, ROCs have been less uniformly welcomed with concern from some parts of the sector that it creates a market distortion leading to price increases and material shortages. Proposed changes to tariff levels within the RHI mean that overall demand is likely to be suppressed and restricted mainly to medium scale boilers.

Whilst withdrawal from the EU could result in the removal of these targets, it is unlikely to have a major impact on the overall direction of government policy given the UK's own Climate Change Act sets even more demanding targets, although without stipulating in detail how this should be achieved. Under the Act, the first of its type in the world, the UK is committed to cutting its carbon emissions by 80 per cent on 1990 levels by 2050. A number of carbon budgets are set with current proposals reaching to 2028-32.

In addition to EU policy and regulation, the use of UK grown timber for generating renewable energy is impacted upon by two related factors, the price of oil and the strength of the pound versus the US Dollar. The decline of the pound since 23rd June has already seen heating oil prices increase by 2p per litre, although this continues a trend of increasing oil prices since January.

A further decline in the pound at the same time as generally recovering oil prices could see a renewed demand for timber for heating. In addition, most electricity generated from biomass in the UK is imported and priced in US dollars and is thus more expensive at present. However, most generators are contracted for the next 2 to 3 years and the quantities they require means that there is probably limited scope for UK producers to take advantage of this situation.

4.5. Land

The financial viability of afforestation proposals is closely linked to the price of land. It is commonly held view that payments to farmers through the Common Agricultural Policy ('farm subsidies') distort the value of farmland, to the disadvantage of the forestry sector.

Should the UK decide to reduce or even remove farm subsidies altogether it is therefore possible that land prices may reduce, making afforestation both more attractive (as an alternative land use) and more viable, financially. The Defra Farm Business Income for England in 2014/15 showed that for Grazing Livestock Farms within the Less Favoured Areas, the Single Farm Payment contributed £15,500 to an average net Farm Income of £14,600. Hence without the SFP the average LFA farm in England would have made a loss.

Probable responses to reductions in farm subsidies include amalgamation of holdings, extensification and even possible abandonment. In all cases farms are likely to focus on the more productive areas or the areas of highest environmental value and which continue to attract payments.

As a devolved matter, and with the farming sector representing varying proportions of the economy across individual nations, it is likely that the situation will vary, leading to wider disparity in land prices and the economic viability of farming in the uplands, especially. Already the NFU and other bodies are lobbying governments for the retention of payments and in some areas there is even a call for a return to a more output based system e.g. headage payments.

The nature of the replacement farm subsidy system in the individual nations will have a major impact on the comparative viability of forestry in the UK.

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End notes

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