

CLWSTWR POLICY BRIEF NO 1

THE (POTENTIAL) IMPACT OF BREXIT ON CREATIVE BUSINESSES

IMPLICATIONS FOR POLICY AND BUSINESSES IN WALES

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ABOUT THE REPORT

This report is part of the Clwstwr programme, a five-year project that aims to put innovation at the core of media production in South Wales - moving Cardiff's thriving screen sector from strength to leadership. Clwstwr wants to build on South Wales' success in making creative content by putting research and development (R&D) at the core of production.

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Introduction

On 31 January 2020, the UK left the European Union (EU). The nature of the future relationship is currently being negotiated. **It is already clear that Brexit is an unprecedented political event with potentially significant economic consequences.** While there has been much discussion about certain sectors in Wales (such as fisheries), there has been less attention paid to the impact of Brexit on the creative industries – a key and growing economic sector where Wales has significant strength.

The creative industries have become a growth engine for Wales.

In 2017, an *Independent Review of the Creative Industries* suggested that Cardiff had become one of the UK's largest media production centres outside of London, backed by a strong independent TV production industry.¹ In 2018, Nesta described Cardiff as a city experiencing fast creative growth.² And the Welsh Government has identified the creative industries sector as a key priority sector, both because of their increasing importance to the Welsh economy and their role in promoting Welsh stories, talent and identity.³

Following the publication of the [Government's EU negotiation mandate](#) on 27 February 2020, the UK will not be seeking to participate in the next Creative Europe programme, due to start in January 2021. This will have adverse effects on Wales, which has benefited significantly from EU funding.³

Wales is particularly dependent on trade with the EU – more so than any other UK nation or region.⁴ The Welsh creative industries are reliant on funding, trade and freedom of movement to/from the EU. The Welsh Government's policy

¹ See

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/649980/Independent_Review_of_the_Creative_Industries.pdf

² See https://media.nesta.org.uk/documents/creative_nation-2018.pdf

³ Welsh Government (2016). Priority sector statistics. Available at <https://gov.wales/sites/default/files/statistics-and-research/2019-03/priority-sector-statistics-2016-new-gva-data-2014.pdf>

⁴ House of Commons (2019). Statistics on UK-EU trade. Available at <https://commonslibrary.parliament.uk/research-briefings/cbp-7851/>

paper *Securing Wales' Future* advocates maintaining close alignment with the EU, arguing, for example, that Wales should continue to have access to European funding for the creative industries.⁵

Following its 2018 inquiry into *Brexit, the arts sector, creative industries, heritage and the Welsh language*, the National Assembly of Wales' Culture,

The British Film Institute has calculated that between 2007 and 2017 Welsh screen industries projects received £24.9 million of EU funding: 10% of the UK total.¹

Welsh Language and Communications Committee suggested that creative businesses in Wales will face a number of difficulties after Brexit. These include direct and indirect funding, access to skills and free movement, touring in Europe, access to the single market and single regulatory system, and access to international networks.⁶

However, this is not currently the approach taken by the UK Government, who have stated that they will not take the next Creative Europe programme into consideration in its negotiations.⁷ Whether the negative economic impact of COVID-19 changes this approach – adding a further layer of economic risk to an economy that has just received a major blow - remains to be seen.

Indeed, in the context of the huge upheaval caused by COVID-19, concerns about Brexit – especially the creative sectors who have been hit hard by COVID-19 – have been pushed to the margins. And yet the outcome of Brexit negotiations remains a key issue for public policy and is likely to influence the ability of creative businesses to recover and thrive.

This report examines how a range of creative businesses view Brexit - their hopes and fears, as well as some of the practical business implications.

⁵ Welsh Government (2017). White Paper: Securing Wales' Future. Available at <https://gov.wales/securing-wales-future>

⁶ The Culture, Welsh Language and Communications Committee of the National Assembly of Wales (2018). *Brexit, the arts sector, creative industries, heritage and the Welsh language*. Available at <http://senedd.assembly.wales/documents/s81782/Report%20Brexit%20the%20arts%20sector%20creative%20industries%20heritage%20and%20the%20Welsh%20language.pdf>

⁷ Gov.uk (2020). Our approach to the Future Relationship with the EU. Available at <https://www.gov.uk/government/publications/our-approach-to-the-future-relationship-with-the-eu>

We focus on Wales - although the shape of the creative industries in Wales is not untypical of the UK as a whole, so our findings may be indicative of broader UK trends.

This study on the potential impact of Brexit on Wales' creative businesses enables us to better understand the key issues and make recommendations for businesses and policy makers in current trade negotiations.

Methodology

We surveyed 244 creative businesses in Wales from April-December 2019. The main purpose of the survey was to provide an economic snapshot of the Welsh creative sector, examining turnover, employment and innovation capacity. Due to its potential impact, we included questions about Brexit, and this report focuses on the responses to those questions (we will report the finding of the whole survey later this year).

The survey used open-ended questions distributed to businesses and freelancers in the creative industries in Wales (using Qualtrics software). We analysed the collected responses using automated text analysis software including sentiment analysis, text clustering, text classification, topics extraction and deep categorisation (using MeaningCloud software), as well as manual text coding.

		Cardiff	North, Mid-Wales	Rest of Cardiff Capital Reg.	Rest of South Wales											
		47.5%	7.8%	35.7%	9.0%	Grand Total	Film, TV, video, radio and photography	Music, performing and visual arts	Other	IT, software and computer services	Publishing (eg. newspapers, journals)	Advertising and marketing	Design and designer fashion	Crafts	Museums, galleries and libraries	Architecture
Company	Large Enterprise	0.8%	0.4%													0.4%
	Medium-sized Enterprise	3.3%	0.8%	0.4%	0.4%	0.8%	0.4%	0.4%	0.8%	0.4%	0.4%					
	Small Enterprise	19.3%	5.7%	2.9%	4.5%	2.9%	1.2%	1.2%	0.8%							
	Micro Enterprise	47.5%	13.1%	10.2%	7.0%	7.4%	3.3%	3.3%	2.0%					0.8%	0.4%	
Sole trader	Sole trader	29.1%	10.2%	4.1%	5.3%	1.2%	1.6%	1.6%	0.8%	2.5%	1.2%	0.4%				
Grand Total		100.0%	30.3%	17.6%	17.2%	12.3%	6.6%	6.6%	3.7%	2.5%	2.0%	1.2%				

Table 1: Sample distribution of respondents to survey.

The responses reflect broadly the concentration of companies in Cardiff and across the Cardiff City Region and among the creative industries sectors (see Table 1).

Findings

How concerned are creative businesses in Wales about Brexit?

We found high levels of concern about Brexit's potential impact among creative businesses in Wales, with four out of five creative businesses expressing concern. Of these, a quarter expressed very strong concerns, indicating that Brexit could potentially be a 'disaster' for their business. Only 4% saw Brexit having any positive impact on their bottom line - and most of this group still have concerns. Only 0.8% - a tiny proportion - saw Brexit as a generally positive development.

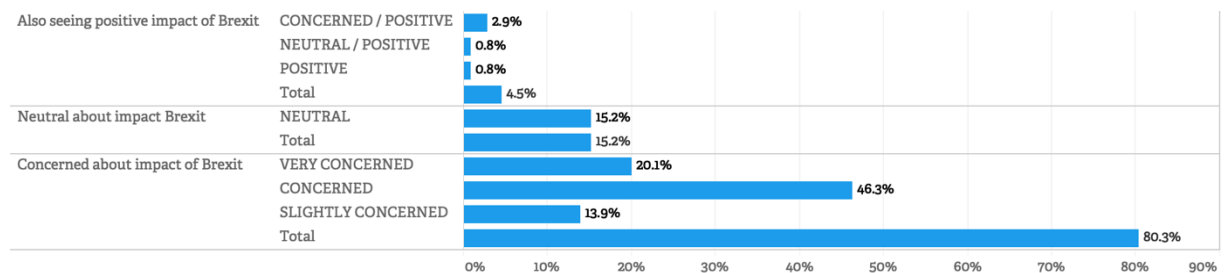




Figure 1: Levels of concern regarding Brexit among creative businesses in Wales.

Concerns about Brexit are consistent across Wales, and were expressed regardless of company size. Among the different creative sectors, **the highest level of concern was expressed in Wales's two largest creative sectors**: the thriving film/television sector (where 87% expressed concern) and the music and performing arts sector (where 83% expressed concern).

 **HIGHLY CONCERNED** "We will take decades to recover from this." "Brexit will be a disaster."
"Brexit is a massive concern." "Brexit is a calamity." "We are deeply concerned about Brexit..."

 **CONCERNED** "I am concerned..." "Brexit will almost certainly have an adverse effect on my work."
"Yes, we are affected..." "We are concerned about Brexit." "I don't think Brexit is a good idea."

 **SLIGHTLY CONCERNED** "Currently not too concerned." "We're not directly influenced, but..."
"We will not be directly affected by Brexit. However..." "The impact is variable depending on each client."

 **NEUTRAL** "Brexit as such is not likely to have an impact." "My business is not concerned with Brexit."
"We haven't seen any impact to date and don't predict any issues..." "We are not concerned about Brexit."

 **POSITIVE** "We support Brexit ..." "We are positive about the potential future benefits of Brexit."
"The one possible good outcome would be..." "We will spend more..."

4 out of 5 creative businesses (80.3%) are concerned about Brexit's impact.

1 out of 5 businesses (20.1%) are highly concerned.

15% of businesses take a neutral position on the impact of Brexit.

4% of businesses could see some potential positive impacts of Brexit

0.8% are completely positive about Brexit's impact on their business.

87% of film, TV, video, radio and photography businesses,

83% of music, performing and visual arts businesses,

75% of publishing (e.g. newspaper, journals) businesses,

70% of IT, software and computer services businesses, and

60% of advertising and marketing businesses...

...in Wales are concerned about the impact of Brexit (compared to an average of 80% level of concern among creative businesses in Wales).

20% of creative businesses in Wales have already experienced a Brexit impact.

These reported impacts include a decline in projects and orders since 2016 (due to Brexit uncertainty), preparations for the unravelling of existing EU agreements and networks, and the higher cost of materials, products and services (due to a drop in the value of the GBP).

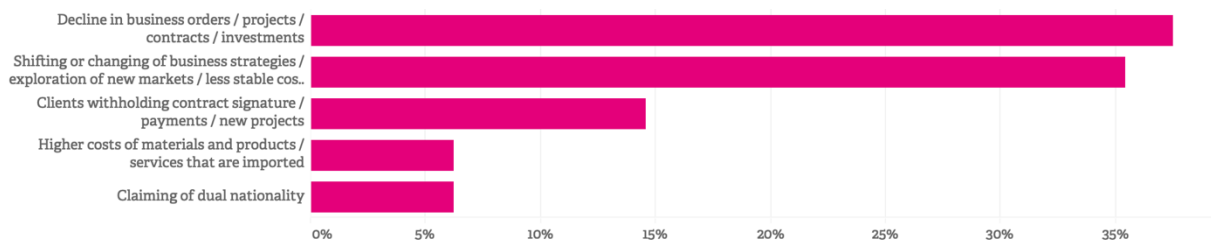


Figure 2: The impact of Brexit on Wales' creative businesses to date.

BREXIT HAS ALREADY MADE THE FOLLOWING IMPACTS:

1. A DECLINE IN BUSINESS

This includes a decline in number of projects, orders etc., and less willingness to spend money by both consumers and companies.

2. CHANGES IN BUSINESS STRATEGIES

Creative businesses are already trying to decrease dependency on European markets, cutting overhead costs or moving to more flexible supply arrangements. Some businesses have already left European networks and are trying to develop new marketing strategies to diversify their client base.

3. HIGHER COSTS

Creative businesses in Wales experiences higher costs of imported materials and products / services due to the drop of value of the GBP.

4. CLAIMING DUAL CITIZENSHIP (IRISH)

A number of freelancers have claimed dual citizenship to maintain freedom of movement in the EU after Brexit.

RESPONSES SHOWED THAT PEOPLE IN THE CREATIVE INDUSTRIES IN WALES HAVE STRONG FEELINGS ABOUT BREXIT. A SENTIMENT ANALYSIS SHOWS THAT THEIR COMMENTS WERE EVENLY DIVIDED BETWEEN “SUBJECTIVE” AND “OBJECTIVE” RESPONSES.



What future impacts do businesses fear?

Creative businesses have concerns that range from broad economic and structural changes to the practical day to day problems that Brexit may create.

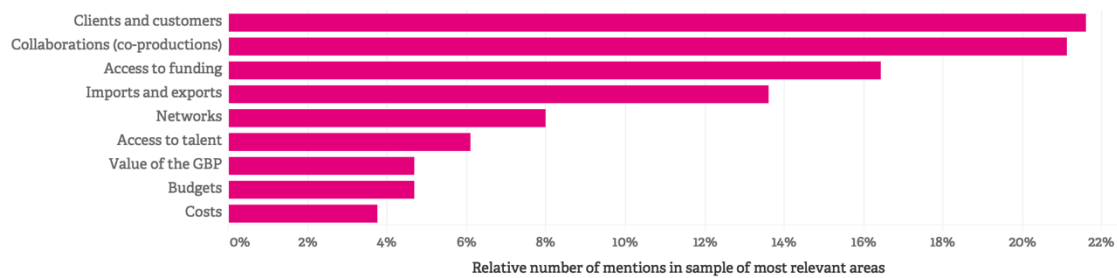


Figure 3: Main areas of (potential) impact of Brexit on Wales' creative businesses.

BREXIT WILL POTENTIALLY INFLUENCE:

1. BUSINESS AND ECONOMY

Businesses are worried that Brexit would lead to slower UK economic growth and lower consumer and client spending. Many businesses are also concerned at the prospect of price changes, higher costs and an increase in bureaucracy around trade, especially if the UK falls out of regulatory alignment with the EU. There is also apprehension about clients with strong European connections leaving the UK.

2. MOBILITY

Creative businesses are worried that ending free movement will mean an increase in bureaucracy in travel arrangement between the UK and the EU (so, for example, making it harder to book artists, or increasing the burden on existing or future collaborations with EU partners).

3. LABOUR MARKET

Any limitations on labour movement will make it harder to attract EU talent, while placing burdens on future collaborations with partners in the EU.

4. REPUTATION AND ACCESS TO FUNDING

Many businesses fear that Brexit will have a negative impact on their reputation for international cooperation with Europe, and that they will lose access to EU funding streams.

CONCLUSION AND RECOMMENDATIONS

Our study shows that most creative businesses in Wales have significant concerns about Brexit. Wales is particularly dependent on trade with the EU and EU funding – more so than any other UK nation or region – so creative industries in Wales may feel especially vulnerable. But it seems more likely that their fears about Brexit will be widely felt across the UK's creative industries – especially in the aftermath of economic shock caused by COVID-19.

These concerns need to inform what kind of deal the UK strikes with the EU. The survey points to potential problems for the creative industries that are both real and tangible. Since the creative industries are an increasingly strong and successful part of both the Welsh and wider UK economy, these problems need to be taken seriously.

Recommendations for the UK Government

The particular dependence of the Welsh economy on EU funding and markets means that the levels of concern shown by our survey may be higher than in other regions of the UK. However, since creative companies across the UK share many of the characteristics highlighted by our survey, it seems likely that concerns about Brexit will be widely shared by creative companies across the UK, especially in the film and TV and music and performing arts sectors where concern is highest. In the negotiations ahead, creative companies would like to see from the UK Government:

1. THE MAINTENANCE, AS FAR AS POSSIBLE, OF FREEDOM OF MOVEMENT TO MAINTAIN MOBILITY OF TALENT
2. ASSOCIATE MEMBERSHIP (OR ITS EQUIVALENT) TO MAINTAIN ACCESS FOR UK COMPANIES TO EU FUNDING SCHEMES
3. AS CLOSE AN ALIGNMENT AS POSSIBLE WITH THE EU TO MINIMISE TRADE BARRIERS

4. THE UK GOVERNMENT TO REPLACE LOST SOURCES OF EU FUNDING

Recommendations for the Welsh Government

The Welsh Government can try to mitigate some the problems that may lie ahead, although many of its options depend upon the UK Government's willingness to listen to devolved administrations, and to strike a deal with the EU that does not hinder the growth of Wales' most successful sectors. We recommend the Welsh Government:

1. CONTINUE TO LOBBY UK GOVERNMENT ON BEHALF OF THE WELSH CREATIVE INDUSTRIES, BOTH IN TERMS OF REGULATORY ALIGNMENT AND LOST FUNDING OPPORTUNITIES
2. WHERE POSSIBLE, MAINTAIN TIES WITH EU PROGRAMMES THAT MAY STILL BE OPEN TO NON-EU MEMBER STATES AND COMMUNICATE OPPORTUNITIES TO CREATIVE BUSINESSES

Recommendations for creative businesses in Wales

While the future relations to the EU are still unclear, the proposed rejection of the Creative Europe programme in the vision paper for the Brexit negotiations make it clear that creative businesses need to prepare for worst-case scenarios. This means:

1. BUILDING TRUST WITH PARTNERS AND CLIENTS IN EUROPE TO MAINTAIN RELATIONSHIPS
2. DIVERSIFYING THE CLIENT BASE AND SUPPLY CHAINS - FOR EXAMPLE, ANTICIPATING AN INCREASE IN COSTS FOR EUROPEAN SERVICES AND PRODUCTS, AND, WHERE POSSIBLE, SEEKING LOCAL SUPPLIERS
3. BEING AWARE OF EU PROGRAMMES THAT MAY STILL BE OPEN TO NON-EU MEMBER STATES



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