

European Scrutiny Committee

House of Commons London SW1A 0AA

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From: Sir William Cash MP

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Rt Hon. Steve Barclay MP
Chief Secretary to the Treasury
HM Treasury
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EU financial support for regions and sectors affected by the UK's withdrawal: the Brexit Adjustment Reserve

You will be aware that the EU recently reached agreement on the establishment of its so-called “Brexit Adjustment Reserve” (BAR), a €5 billion (£4.3 billion) support fund that will be divided between the 27 remaining Member States.¹ It can be used by them to finance measures that aim to address the economic impact of the UK's withdrawal from the EU, with funding to be concentrated in sectors and countries most closely linked to the UK (and where the fundamental change in our trading relationship is likely to have been felt most keenly, like the North Sea fisheries industry).²

We previously reported the BAR to the House in January this year, noting at the time that a proper assessment of its implications for the UK was not yet possible given that negotiations on its scope, design and implementation were still on-going in Brussels.³ Now that the finalised legal text underpinning the Reserve is available for public scrutiny, we have considered the matter again. We note, in particular, that the Reserve may be used to a significant extent by EU countries to provide subsidies to improve the financial position of private companies in the sectors most affected by Brexit, in particular the fisheries industry. The French Government, for example, has already announced – and received EU permission for – a €100 million scheme to support the fisheries industry and communities along its western coast, to be funded from the

¹ Document COM(20) 854, (41771).

² The Irish Government, for example, has announced that it is set to receive more than €1 billion from the Reserve.

³ European Scrutiny Committee, Thirty-fourth Report of Session 2019–21, HC 229-xxx (20 January 2021), chapter 4.

Reserve.⁴ There are indications that a significant proportion of the BAR will be channelled into subsidies for the EU's private sector, with the funding to be concentrated in a number of countries to which the UK is particularly closely linked economically, including Ireland, France, Belgium and the Netherlands. Indeed, Ireland alone is set to receive more than €1 billion from the fund to use for economic 'adjustments' to Brexit.

The EU's Brexit Adjustment Reserve could therefore have competitive implications here, potentially putting the UK competitors - not least those in Northern Ireland - at a disadvantage both in our domestic market and overseas vis-à-vis EU businesses in receipt of financial support via the Reserve.

In your Explanatory Memorandum of 9 February, in which you set out the Government's initial views on the Reserve, you said that the Government can "challenge EU subsidies which significantly harm the UK", including funding given by EU institutions, under the terms of the new UK/EU Trade and Cooperation Agreement. In light of this, we would be grateful if you could write to us at the earliest possible opportunity to clarify:

- whether the Government has any concerns about the EU's Brexit Adjustment Reserve, in particular whether it could be used to provide subsidies with a negative effect on trade or investment between the UK and the EU;
- more generally, how you intend to monitor how the funds provided to individual EU countries from the Brexit Adjustment Reserve are used, to establish whether there is a need for the UK to raise any issues of concern with the EU; and
- whether, in light of the amount of support the Reserve is likely to provide to affected sectors and communities in the countries closest to the UK, the Government believes it may be necessary to provide any additional support to UK sectors or businesses to match the support their EU counterparts may receive from the Reserve (in particular the fisheries industry).

We look forward to receiving your reply by 31 July.

I am copying this letter to the Chairs and Clerks of the Committees on Business, Energy & Industrial Strategy; Environment, Food & Rural Affairs; and International Trade, as well as the Chairs and Clerks of the Northern Ireland Scottish and Welsh Affairs Committees; to Lord Kinnoull, Chair of the House of Lords EU Select Committee, and to Chris Johnson, that

⁴ EU State aid cases SA.62421, SA.62426 and SA.62427.

Committee's Clerk; to Maitreya Thakur and Lucy Rowe in your Department;
and to Les Saunders in the Cabinet Office.

CHAIR