



**ECO/542**  
**Brexit Adjustment Reserve**

## **OPINION**

European Economic and Social Committee

**Proposal for a Regulation of the European Parliament and of the Council establishing the Brexit Adjustment Reserve**  
**[COM(2020) 854 final – 2020/0380 (COD)]**

Rapporteur-general: **Florian MARIN**

Consultation	European Parliament, 18 January 2021 European Council, 20 January 2021
Legal basis	Article 175(3) and 304 TFEU
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted at plenary	24/02/2021
Plenary session No	558
Outcome of vote (for/against/abstentions)	242/0/2

## 1. Conclusions and recommendations

- 1.1 The EESC considers that Brexit is a very complex and difficult exercise. The EU-UK Trade and Cooperation Agreement<sup>1</sup> alleviates some of the economic and social damage of a "no-deal" scenario, but the future economic and financial losses are very difficult to quantify at such an early stage. Targeted and fast action is clearly needed in order to mitigate the economic and social impact.
- 1.2 This new partnership seriously challenges the existing economic, social and commercial interdependence between the EU and the UK. The EESC already observes the negative impacts on cross-border mobility and barriers to trade in goods and services. This could result in job losses and businesses going bankrupt, especially SMEs. Increased flexibility and understanding towards EU stakeholders in the current adaptation period is paramount.
- 1.3 The EESC welcomes the creation of the Brexit Adjustment Reserve<sup>2</sup> (the "Reserve") within the special instruments outside of the EU budget ceilings of the Multiannual Financial Framework (MFF)<sup>3</sup>. The EESC considers that cohesion and solidarity between Member States are fundamental EU values and appreciates the retroactive application of the Reserve going back to July 2020.
- 1.4 Workers' rights have to be protected immediately and the mutual recognition of qualifications must be further negotiated. The EESC recommends that all Member States should immediately start organising information campaigns to raise awareness among citizens regarding the new rules in place. For such action to be a complete success, the social partners and civil society organisations must be fully involved. Trade unions, and employers' and civil society organisations have a vital role to play in building a strong economic and social partnership with the UK.
- 1.5 The EESC suggests that the fisheries sector should have a completely separately designed reserve that will support this sector only. Special attention should be paid to other sectors, such as tourism and agriculture, for example. Appropriate infrastructure investments and support for the EU citizens that are returning to their home countries after Brexit should also be considered.
- 1.6 The EESC expects prolonged discussions between stakeholders on who gets the biggest slice of the Reserve and considers that additional funds should be immediately provided for. In this respect, the EESC asks the co-legislators to increase the proposed ceiling.
- 1.7 The EESC calls on all Member States to act responsibly and direct the available funds towards the regions, companies, workers and citizens that need them the most. Otherwise, the solidarity

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<sup>1</sup> Trade and cooperation agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part, [OJ L 444, 31.12.2020](#).

<sup>2</sup> Proposal for a Regulation of the European Parliament and of the Council establishing the Brexit Adjustment Reserve, [COM\(2020\) 854 final - 2020/0380 \(COD\)](#).

<sup>3</sup> [Long-term EU budget 2021-2027 and recovery package](#).

behind the design of such a reserve could be called into question and its chances of success would be in doubt.

- 1.8 Article 5(1)(a) should be modified as follows: "measures to assist businesses, workers in the transition towards new skills and new jobs, and local communities adversely affected by the withdrawal". Moreover, Article 5(1)(d) should be modified as follows: "measures to support job protection and employment, including through short-time work schemes, re-skilling and training in affected sectors". Indicator 15.4 from Annex II should be modified accordingly.
- 1.9 The eligibility period could be extended by two more years, just to make sure that the Member States have adequate time to make use of their share of the Reserve and absorb the shock waves from the UK's withdrawal.
- 1.10 The EESC considers that a small part of the Reserve should be earmarked for technical assistance purposes, for when a new management system is created. However, the EESC strongly believes that the largest part of the Reserve should be allocated to supporting employment and economic activities.
- 1.11 SMEs are particularly affected by the newly introduced customs procedures, regulatory burdens and rising transport costs. Since SMEs mostly lack the administrative and legal capacity to implement a full contingency plan, the EESC is asking for specially designed measures to support them.
- 1.12 When possible and in agreement with the European Commission, the EESC recommends that the simplified costs option be used. Simplified rules and less bureaucracy in the implementation process will contribute to faster distribution of the financial resources.
- 1.13 The EESC calls for the creation of a monitoring committee in each Member State with the main purpose of eliminating possible risks that could appear in the implementation process, while ensuring the formal involvement of civil society in the process. The committees should comprise representatives of social partners, NGOs and public institutions involved in the implementation of the Reserve.
- 1.14 The EESC proposes that more clarity should be provided in terms of governance by clearly designating a management body for the Reserve. The European Commission should protect the level playing field between Member States.
- 1.15 The EESC calls for an intermediary performance framework to be created, based on specific performance-driven indicators to be established by the Member States and evaluated by the European Commission yearly. It considers that limited use of the available funds will proportionally increase the negative economic and social impact of Brexit.

- 1.16 The integration of the European code of conduct on partnership<sup>4</sup> in the framework of the European Structural and Investment Funds into the management of the Reserve will empower stakeholders and civil society organisations to play a vital role as intermediary bodies.
- 1.17 Finally, the EESC suggests that the European Commission report on its evaluation of the Reserve's effectiveness, efficiency and added value to the European Parliament and the Council within three months from the assumed deadline.

## 2. Introduction

- 2.1 The EU-UK Trade and Cooperation Agreement has been signed after four years of negotiations and provides for the future partnership. It consists of three new pillars:
- a free trade agreement
  - a new partnership for our citizens' security
  - a horizontal agreement on governance.
- 2.2 Although the main rules of the game have been established, citizens and businesses alike need to adapt to this new situation, examining in detail the new restrictions and sector-by-sector challenges. The future economic and financial losses are very difficult to quantify at such an early stage, but targeted and fast action is clearly needed to mitigate the negative economic and social impact.
- 2.3 Brexit is indeed a very complex and difficult exercise. Member States may have to step up control measures at sea, ports and airports in order to carry out additional monitoring and inspections when issuing certificates and authorising products, and in order to comply with establishment requirements, SPS (Sanitary and Phytosanitary Standards) rules and labelling and marking rules. They may also need to consider and update specific awareness-raising campaigns on the consequences that the withdrawal will have for citizens and businesses.
- 2.4 With the new customs and regulatory checks in force causing delays and additional costs, supply chains are often disrupted. Business as usual is already being affected by the new rules in place and the new compliance requirements, especially in the current year, where most of the adverse consequences are expected to occur. Additional taxes that now apply, like VAT, may hinder economic relations and business partnerships. Minimising the negative impact of Brexit on the EU economy requires active involvement from all stakeholders: the EU, Member States, employers, trade unions, civil society organisations, etc.
- 2.5 Furthermore, it is not yet clear how mutual recognition of qualifications will take place, how the flow of data is going to be ensured, or what rules will apply to the services sector. Further negotiations are desperately needed with the aim of achieving viable solutions that will benefit both sides.

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<sup>4</sup> Commission Delegated Regulation (EU) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investment Funds, [OJ L 74, 14.3.2014, p. 1](#).

- 2.6 On the other hand, we do have to get used to the fact that we are dealing with two different markets and two different regulatory and legal spaces. This change represents an important hurdle for all stakeholders and will affect public administrations, citizens and businesses alike. This new partnership seriously challenges the existing economic, social and commercial interdependence between the EU and the UK. Negative impacts on cross-border mobility and barriers to trade in goods and services are already in place. This could result in job losses and businesses going bankrupt, especially SMEs.
- 2.7 The proposal for a Regulation specifies the exact eligible public expenditure, notably measures to assist businesses and local communities; support for employment, including re-skilling and training; job protection; designing regimes for certification and authorisation; communication for awareness-raising; as well support for the functioning of the border.

### 3. **General comments**

- 3.1 The EESC, first of all, welcomes the EU-UK Trade and Cooperation Agreement signed at the very last stage of the transition period. It establishes the future relations, while protecting the integrity of the single market and providing for legal certainty and a level playing field. The Agreement alleviates most of the economic and social damage of a "no-deal" scenario and can be considered the end of the beginning of our EU-UK relationship. The public authorities should show increased flexibility and understanding towards EU stakeholders in the current adaptation period. However, the EU and the Member States should pay special attention to protecting the single market, and its labour, social and environmental and food standards, to avoid the risk of market power abuses.
- 3.2 The agreement on zero tariffs on the trade of goods, as long as they comply with the "rules of origin", and the generally free movement of capital are significant achievements. However, the EESC is concerned that the movement of people (from 30 June 2021) and services have not yet been agreed. Furthermore, Brexit is happening on top of the COVID-19 crisis, which has already generated rising unemployment and reduced incomes. The EESC is also extremely worried that rising social inequalities have become more visible across the EU and reiterates that "the European Pillar of Social Rights (EPSR) needs to be prioritised in cohesion policy"<sup>5</sup>.
- 3.3 The EESC considers that the Commission has chosen the appropriate instrument, with the implementation taking place under shared management. The Regulation will ensure clear and standardised application of rules across Member States, as well as common reporting obligations and deadlines in order to preserve the level playing field between Member States.
- 3.4 The EESC welcomes the creation of the Brexit Adjustment Reserve within the special instruments outside of the EU budget ceilings of the MFF, which is designed to address the negative economic and social consequences in all Member States, supporting businesses and employment in the most affected sectors and assisting regional and local communities. Common

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<sup>5</sup> EESC opinion on the *Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund, and on the Cohesion Fund*, [OJ C 62, 15.2.2019, p. 90](#).

challenges like Brexit require a coordinated response and the EESC considers that cohesion and solidarity between Member States are fundamental values of the EU.

- 3.5 The Brexit Adjustment Reserve is expected to complement additional existing funds available under NextGenerationEU<sup>6</sup> and the MFF. It constitutes a completely new instrument that should provide support to mitigate the negative effects of the UK's withdrawal from the EU, while enhancing economic, social and territorial cohesion and protecting employment. The EESC has already proposed that "the Commission consider creating an EU instrument that can deal with such political situations and crises in the future"<sup>7</sup>.
- 3.6 Trade unions and employers' and civil society organisations have a vital role to play in building a strong economic and social partnership with the UK.
- 3.7 The EESC welcomes the fact that all Member States are eligible and that 80% of the pre-financing allocation will be disbursed already in 2021. This is clear evidence of European solidarity and a coordinated approach to face the short-term impact of Brexit.
- 3.8 The proposed allocation method takes into consideration the importance of trade with the UK as well as the importance of the fisheries sector, but the EESC considers that the two issues should have been separated. Basically, the allocation formula proposed by the Commission implies that the factor linked to fisheries should represent EUR 600 million. Hence, the EESC suggests that the sector should have a completely separately designed reserve that will support fisheries only. Special attention should also be paid to other sectors, such as tourism and agriculture, for example.
- 3.9 It is also very clear that this Reserve is an Adjustment fund that seeks to compensate for the economic and social impact of Brexit. The EESC considers that the EUR 5.4 billion Reserve is not enough to mitigate the negative effects of Brexit. Therefore, the EESC considers that additional funds should be immediately provided for, either through additional budget allocated for the Reserve, or through separately designed funds. In this respect, the EESC asks the co-legislators (Parliament and Council) to increase the proposed ceiling.
- 3.10 The EESC believes that some sectors are more affected than others. Amongst other, agriculture and tourism sectors should also be in the forefront of the Reserve and benefit from the available funds. The tourism sector has suffered dramatically because of the COVID-19 crisis and Brexit will add more obstacles. Farmers are also severely affected in countries like Ireland or the Netherlands, for example.

#### 4. **Specific comments**

- 4.1 Some Member States have already initiated national measures against the negative effects of Brexit on their economies and on public administrations' procedures. Hence, the retroactive

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<sup>6</sup> [NextGenerationEU](#).

<sup>7</sup> EESC opinion on the *Modification of the Solidarity Fund – No Deal Brexit*, [OJ C 14, 15.1.2020, p. 84](#).

application of the Reserve going back to July 2020 is considered to be an important means of providing support.

- 4.2 With more than 4 million EU citizens granted a new residence status in the UK<sup>8</sup>, workers' rights have to be immediately protected and the mutual recognition of qualifications must be further negotiated. The Member States should immediately start organising information campaigns to raise awareness among citizens regarding the new rules in place, as well as the effort that the EU is making to extend the Agreement. For such action to be a complete success, the social partners and civil society organisations must be fully involved.
- 4.3 Specific support schemes should be designed to ensure proper support for regions and sectors affected by Brexit. All Member States should act responsibly and direct the available funds towards the regions, companies, workers and citizens that need them the most, and not towards the ones that are most easily financeable. Otherwise, the solidarity behind the design of such a reserve could be called into question and its chances of success would be in doubt.
- 4.4 The eligibility period could be extended by two more years, just to make sure that the Member States have adequate time to make use of their share of the Reserve and absorb the shock waves caused by the UK's withdrawal. The EESC calls on all MS to carefully take into consideration appropriate infrastructure investments and support for the EU citizens that are returning to their home countries after Brexit.
- 4.5 The EESC also considers that part of the Reserve should have been earmarked for technical assistance purposes, in case a new management system is created. Using technical assistance for management, monitoring, information and communication, complaint resolution, and control and auditing will help to make the instrument a success, to improve risk management and to ensure that the financial resources allocated are spent efficiently.
- 4.6 Some public administrations, especially the ones that represent the main entry and exit points for the trade relationship with the UK, have already made significant investments in infrastructure and human resources, including training. This is also the case for Member States that have a particular relationship with the UK in the tourism sector. However, the EESC strongly believes that the largest part of the Reserve should be allocated to supporting employment and economic actors.
- 4.7 The Commission's proposal includes a specifically designed measure to reduce the supervision period for SMEs from five to three years, from the final payment of the financial contribution. The EESC expects that SMEs will be the most affected and believes that a significant part of the Reserve should be directed at providing them with economic and financial support, with the end objective of preserving employment and keeping businesses afloat.
- 4.8 SMEs are particularly affected by the newly introduced customs procedures, regulatory burdens and rising transport costs. This adds to the extra burden caused by the COVID-19 pandemic, with companies across Member States having to adapt to government lockdowns. As SMEs

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<sup>8</sup> [European Commission – Citizens' rights.](#)

mostly lack the administrative and legal capacity to implement a full contingency plan, the EESC is asking for specially designed measures to support the SMEs that are most affected, using the funds available in the Reserve. Member States are encouraged to support SMEs' efforts making use of State Aid, within the limits.

- 4.9 The EESC considers that, for simplification purposes, the Reserve can be managed using existing management systems. When possible and in agreement with the European Commission, the option of simplified costs must be used. Promoting simplified rules and less bureaucracy in the implementation process and avoiding extra financial and administrative burdens will contribute to faster spending of the financial resources and better results for mitigating the negative impact of Brexit.
- 4.10 Since the Reserve is a completely new instrument and it is almost impossible to evaluate the real negative impact Brexit will have, the EESC suggests that a monitoring committee be set up in each Member State. These should comprise representatives of social partners, NGOs and public institutions involved in the implementation of the Reserve. The committees should organise meetings at least twice a year to evaluate how the Reserve is contributing to reducing the negative impact of Brexit. The main purpose of the committees would be to eliminate potential risks that could appear in the implementation process, while ensuring that civil society is formally involved in the process. The wider (non-organised) society should be informed on the progress of the implementation plan and the final report should contain the summary of the communication activity. Coordination at EU level should be ensured in order to protect the level playing field in the Single Market and the EESC should be actively involved, together with the European Parliament.
- 4.11 The EESC proposes that more clarity should be provided in terms of the governance of the Reserve. In particular, it is important to designate a management body for the Reserve and specify if there is going to be more than one.
- 4.12 An intermediary performance framework is needed, based on specific performance-driven indicators to be established by the Member States and evaluated by the European Commission yearly. This will provide for close monitoring and evaluation of the implementation and spending process, while identifying which Member States are not using the financial resources or are making limited progress. Limited use of the funds will proportionally increase the negative economic and social impact of Brexit.
- 4.13 Civil society must be formally involved in the implementation process. The integration of the European code of conduct on partnership in the framework of the European Structural and Investment Funds into the management of the Reserve will "empower stakeholders and civil society organisations to play a vital role as intermediary bodies, bringing projects closer to their final beneficiaries"<sup>9</sup>. The partners' selection process should be transparent and clear, while enough relevant information should be provided to the selected organisations.

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<sup>9</sup> EESC opinion on the *Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund, and on the Cohesion Fund*, [OJ C 62, 15.2.2019, p. 90](#).

- 4.14 The Commission proposes conducting a thorough evaluation of the Reserve's effectiveness, efficiency and added value by 30 June 2026, with a reporting obligation towards the Parliament and the Council one year later. The EESC thinks that the Commission could report to the Parliament and the Council within three months, specifically on 30 September 2026.
- 4.15 The EESC considers that Article 5(1)(a) should be modified as follows: "measures to assist businesses, workers in the transition towards new skills and new jobs, and local communities adversely affected by the withdrawal". Moreover, Article 5(1)(d) should be modified as follows: "measures to support job protection and employment, including through short-time work schemes, re-skilling and training in affected sectors". Indicator 15.4 from Annex II should be modified accordingly.

Brussels, 24 February 2021

Christa SCHWENG

The President of the European Economic and Social Committee

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