EUROPEAN COURT OF AUDITORS

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Press Release

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EU auditors highlight risks of Brexit Adjustment Reserve

In an opinion published today, the European Court of Auditors (ECA) raises some concerns over the recent proposal for a Brexit Adjustment Reserve (BAR). This €5 billion fund is a solidarity tool which is intended to support those Member States, regions and sectors worst affected by the UK's withdrawal from the EU. According to the auditors, while the proposal provides flexibility for Member States, the design of the reserve creates a number of uncertainties and risks.

The European Commission proposes that 80% of the fund (€4 billion) should be granted to Member States in the form of pre-financing following the BAR's adoption. Member States would be allocated their share of pre-financing on the basis of the estimated impact on their economies, taking into account two factors: trade with the UK and fish caught in the UK exclusive economic zone. Applying this allocation method, Ireland would become the main beneficiary of pre-financing, with nearly a quarter (€991 million) of the envelope, followed by the Netherlands (€714 million), Germany (€429 million), France (€396 million) and Belgium (€305 million).

"*The BAR is an important funding initiative which aims to help mitigate the negative impact of Brexit on the EU Member States' economies*", **said Tony Murphy, the Member of the European Court of Auditors responsible for the opinion**. "*We consider that the flexibility provided by the BAR should not create uncertainty for Member States.*"

In particular, EU auditors point to the architecture of the BAR, under which Member States would receive an unusually high level of pre-financing without having to give the European Commission advance details of the measures to be funded. While this would allow for a swift reaction to the exceptional situation, the eligibility and appropriateness of these measures would not be assessed by the Commission before the end of 2023. The auditors warn that the proposed structure and timing would increase the risk of sub-optimal and ineligible measures being chosen.

Moreover, the proposal outlines that the eligibility period for implementing measures should run from July 2020 to December 2022. However, the auditors caution that the Commission does not provide reasoning for choosing this eligibility period or examine its suitability.

The purpose of this press release is to convey the main messages of the European Court of Auditors' opinion. The full opinion is available at eca.europa.eu.

ECA Press

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Background information

The United Kingdom left the European Union on 1 February 2020. Since the end of the transition period on 1 January 2021, the EU and the UK have formed two separate markets and two distinct regulatory and legal spaces. Barriers have been created to trade in goods and services and cross-border mobility, with consequences for public administration, businesses, citizens and stakeholders on both sides. In this context, at its special meeting of 17-21 July 2020 the European Council announced the establishment of a new special Brexit Adjustment Reserve, with a total allocation of €5 billion in 2018 prices.

The European Commission submitted its proposal on 25 December 2020. It is proposed to activate the BAR in two rounds of allocations: the first in 2021 in the form of substantial pre-financing worth €4 billion, while the remaining €1 billion would mainly be paid in 2024 to cover any eligible expenditure exceeding the amount paid in pre-financing. The legal basis for the Commission's proposal requires consultation with the ECA; both the European Parliament and the Council therefore asked the ECA for its opinion.

ECA opinion No 1/2021 concerning the proposal for a Regulation of the European Parliament and of the Council establishing the Brexit Adjustment Reserve is currently available on the ECA website eca.europa.eu in English; other EU languages will follow shortly.

The ECA contributes to improving EU financial governance by publishing opinions on proposals for new or revised legislation with a financial impact. These opinions provide an independent assessment of the legislative proposals by the EU's external auditor.

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