



Flanders
State of
the Art

Brexit: Flemish interests and priorities

Vision statement for the Brexit negotiations

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BREXIT: FLEMISH INTERESTS AND PRIORITIES

In a referendum on the 23rd of June 2016, the United Kingdom (UK) decided to leave the European Union (EU). At the start of the negotiations for this withdrawal on the 19th of June 2017, the two parties agreed to a phased approach whereby initially only the conditions for the withdrawal of the UK from the EU (first phase) would be discussed. If the European Council agreed that sufficient progress was achieved during the negotiations on the withdrawal conditions, then it would also be possible to discuss the outline of a future cooperation agreement and a possible transition period (second phase). During the European Council Summit of the 20th of October 2017, the EU27 decided to start internal preparatory discussions regarding the future EU-UK relations. Unless the European Council unanimously decides otherwise, the UK will no longer be a member state of the European Union from the 29th of March 2019 onwards. The actual negotiations on the future EU-UK cooperation agreement will start after the formal withdrawal of the UK and on the basis of discussions already held with regard to the outline.



1 FLEMISH PRIORITIES

There is a lot at stake for Flanders. The negative impact of Brexit for Flanders will be the hardest if the Brexit negotiations do not lead to a gradual and planned transition of the UK's EU membership into a new bilateral framework, or if the negotiations fail (the so-called "cliff edge" scenario). The withdrawal of the UK must therefore take place in several phases whereby the UK is disconnected from the internal market step by step. We must avoid a sudden rupture of trade relations and cooperation in the field of mobility, education and research, agriculture and fisheries, environment and energy. Specifically for trade relations, Flanders believes that the EU and the UK must present a common proposal within the framework of the WTO for the fair distribution of the current EU-28 commitments. This will reduce the risk of additional requests for compensation from other WTO members considerably. Indeed, the government of Flanders attaches great importance to the multilateral framework of the WTO whereby development objectives play a crucial role (see the Flemish trade and investment strategy of 25 November 2016). Furthermore, the result of the Brexit negotiations should not undermine the value of full EU membership. There has to remain a difference between an EU member state and a non-EU member state.

To address these various challenges, the Flemish Government has defined several policy priorities and goals. On that basis, the government is taking a formal position, is developing an appropriate policy, and is communicating with stakeholders and decision-makers about the preferred negotiation outcome for Flanders. A distinction is made between objectives in the First Phase (withdrawal conditions) and in the Second Phase (outline of the future cooperation) of the Brexit negotiations.

1.1 OBJECTIVES FOR THE WITHDRAWAL CONDITIONS

- Limiting the impact of Brexit on EU expenditure for the **Multiannual Financial Framework** (MFF) 2014-2020 as much as possible. Guaranteeing the continuity of ongoing projects as much as possible.
- Providing maximum protection of the acquired **rights of EU and UK citizens**. These guarantees are based on reciprocity and limit the administrative burden for citizens as much as possible. Posted workers and frontier workers enjoy a protected status.
- Concluding an agreement between the EU and the UK concerning **Northern Ireland** that respects the Good Friday Agreements. Customs agreements made in this respect are monitored closely. These agreements do not give rise to intra-European competition.
- With regard to **enforcement and dispute resolution**, finding a compromise that respects the autonomy of the European legal system on the one hand, and the UK's intention to terminate direct jurisdiction of the European Court of Justice in the UK on the other hand.

Top export sectors 2016 - % share of Flemish exports to UK

Transport equipment	32,2%	€8,91 billion
Chemical and pharmaceutical products	18,51%	€5,12 billion
Machinery	7,58%	€2,10 billion
Plastics	6,57%	€1,82 billion
Foodstuffs	6,45%	€1,78 billion
Mineral products	4,85%	€1,34 billion
Textiles	4,60%	€1,27 billion

% share of UK in Flemish world exports per sector

Transport equipment	23,22%	UK = 1 st export destination
Textiles	11,27%	UK = 4 th
Foodstuffs	10,23%	UK = 4 th
Plastics	7,50%	UK = 4 th
Chemical and pharmaceutical products	7,17%	UK = 5 th
Machinery	6,44%	UK = 4 th
Mineral products	5,95%	UK = 5 th

The above interests are affected by barriers to trade that will increase when the UK is no longer a member state of the EU. The UK has stated that it wants to leave the internal market and the customs union. In that case, tariff as well as non-tariff barriers will have a negative effect on Flemish trade with the UK.

Tariff barriers mainly will consist of import duties that the UK will be able to impose on goods coming from the EU. This will make exports from Flanders to the UK more expensive which may result in a decrease of demand for Flemish products and eventually lead to a reduction of Flemish exports. Conversely, exports from the UK to Flanders will become more expensive and higher prices for British products may have to be paid by Flemish consumers. If the EU and the UK do not come to an arrangement for import duties, trade will revert to WTO tariffs.



In 2016, the Government of Flanders Research Centre calculated that Flemish GDP would shrink by 2.6% if the trade relations between the EU and the UK would revert to WTO rules. If the EU and the UK conclude a free trade agreement, this loss would be limited to 1.8% of Flemish GDP. These results were largely confirmed in a recent study carried out by researchers associated with the KU Leuven university on the effects of Brexit throughout the production chain. If the negotiations between the EU and the UK result in a "hard Brexit", this study estimates that the decline of Belgian GDP would be 2.35%. This scenario would amount to a loss of 42,000 jobs in Belgium. If negotiations result in a "soft Brexit", this decline of GDP would be limited to 0.58% and the loss of jobs would amount to 10,000. **All studies indicate clearly that, of the 27 remaining EU member states, Flanders will be affected the most after Ireland and the Netherlands.** Brexit impacts for Flanders will be harder than for Germany and Spain.

	Belgian GDP	Belgian jobs
Hard Brexit	- 2,35%	- 42.000 jobs
Soft Brexit	- 0,58 %	- 10.000 jobs

2.2 TRADE - SERVICES

Flemish trade in services with the UK will be affected considerably by **the loss of free movement of persons and services** between the UK and the EU. An estimated 35,000 Belgians live and work in the UK, the majority of which are Flemish. Conversely, about 30,000 Brits work and live in Belgium. If the UK leaves the EU without an agreement on movement of persons and services, it will immediately become more difficult for these people to work in the UK/Flanders because they will automatically lose the work and residence rights that apply to EU citizens in the internal market. Harmonised EU rules currently exist for cross-border activities. However, there is a risk that an **uneven playing field** between the EU and the UK will be created in the long term, because UK regulations will eventually differ from those of the EU.

2.3 BUDGET

The UK annually makes a significant net contribution to the EU budget. If the UK leaves the EU without an agreement on its financial obligations vis-à-vis the EU, the loss of its contribution will mean that budgetary choices will need to be made regarding budget cuts on the one hand or increased contributions from the remaining member states on the other. **An increase of the contribution** would impact the Belgian (federal) contribution to the EU budget. **Budget cuts** would impact public and private organisations in Flanders that currently receive funds from the EU budget. A significant part of these European funds are co-financed by the Flemish budget. This is the case for the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development, and the European Fisheries Fund. The federal states are also responsible for paying benefits to farmers (without co-financing by the Flemish budget). In addition, private and public parties receive subsidies from a variety of EU financing

The Flemish **fisheries sector** is relatively small. A worst-case scenario could be the final blow to this sector. This scenario consists of a loss of access or a modification of the access conditions to British coastal waters and the exclusive economic zone of the UK. Considering the more than 50% dependency on access to British waters, such a scenario is potentially very threatening for the Flemish fisheries sector.

2.5 ENVIRONMENT, NATURE AND ENERGY

As an EU member state, the UK is bound by European laws on the environment, nature and energy. When Brexit is complete, the UK may be able to adopt deviating regulations which are in line with British national interests. This would disrupt the **current level playing field**, and the UK may gain a competitive advantage vis-à-vis the EU and Flanders. Ambitious objectives adopted by EU28 may need to be adjusted. If this is not done, these objectives will have to be attained by EU27 with increased efforts of member states and their federated states as a result.

2.6 EDUCATION AND RESEARCH

Flanders and the UK work closely together in the field of education and research. EU students and researchers currently have privileged access to the UK and vice versa. When the UK leaves the EU, this privileged access may be impeded.

2.7 OTHER

Several other Flemish policy areas will also be impacted by Brexit in varying degrees.

Most legal bases concerning fiscal data exchange and recovery assistance would no longer apply in case of a hard brexit. However, the UK remains a OECD-member and the existing double tax treaty remains in force. This situation would lead to reduced data exchange and recovery assistance or less flexibility in these areas; this in turn could result in lower tax income.

Brexit will also have an impact on the shipping and maritime sectors. The cooperation between Flanders and the UK within the European Maritime Safety Agency (EMSA) and SafeSeaNet, the Maritime Incident Response Groups (MIRG-EX), the Agreement on access to AIS information (Automatic Identification System) and WETREP - West European Tanker Reporting System may be jeopardised.

Brexit will also have direct and indirect consequences for the EU's data protection regulations, the dual-use sectors, audiovisual media services, cultural goods, integration and civic integration, the staff policy of the Flemish government administration, professional qualifications and culture.



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