



European Scrutiny Committee

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From: Sir William Cash MP

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Rt Hon Elizabeth Truss MP
Chief Secretary to the Treasury
HM Treasury
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Extension of the post-Brexit transitional period: potential financial implications

At its meeting on 17 October, the European Scrutiny Committee discussed the recent reports that UK and EU negotiators have discussed the possibility of extending the planned post-Brexit transitional period beyond 31 December 2020. The Prime Minister herself subsequently confirmed later that day at the European Council that such a proposal is under consideration.

In particular, the Committee discussed the consequential changes that an extension might require for the financial settlement under Part Five of the draft Withdrawal Agreement. I am writing to express, again, the Committee's concern about the possible financial implications of an extension of the overall transitional arrangement.

In the event of an extended transition of the UK on its current terms the remaining Member States are certain to ask for further UK financial contributions to the EU budget, as I first indicated in my question to the Prime Minister on 15th October, above and beyond the financial settlement contained in Part Five, to fund our continued participation in EU programmes and structures. We accept that the exact nature of the UK's contribution during an extension of that nature would, of course, be a matter for negotiation. It would depend primarily on the length of the transition, the scope of the application of EU law during that period, and whether the EU budget for the periods involved was set with or without continued participation of the UK in mind.

However, irrespective of the precise financial mechanism, the Committee is concerned that the practical effect of the extension would be to require a net contribution broadly equivalent to what the UK would have paid had it remained a Member State (as it would during the transition in 2019 and 2020). That implies a longer transition could result in an additional potential cost to UK taxpayers of billions of pounds, on top of the estimated £39 billion cost of the existing financial settlement relating primarily to the UK's financial obligations under the 2014-2020 EU budget.

The net cost of the extension would be larger still if, as is likely, the UK rebate would no longer apply to any contributions made to cover new spending commitments under the EU's next Multiannual Financial Framework between 1 January 2021 until the end of the transition. Any reduction in public and private sector receipts from the EU budget, which we have already seen in some areas like research funding, would then no longer be partially offset by an abatement on the UK's payments.

Equally importantly, the UK in this scenario would from 1 January 2021 be paying towards EU policies and programmes over which it had no significant influence. As you are aware, negotiations are currently on-going about the EU's spending limits and priorities from 2021 onwards under the next Multiannual Financial Framework. The UK will lose its veto over those spending limits in March next year, and similarly will not have a vote over the legal instruments establishing sectoral spending programmes that determine how the EU budget – including any UK contributions – would be spent. This clearly presents a significant risk that UK taxpayers will provide substantial subsidies for policies that may not be in our interest or provide little added value.

In light of the above, should the possibility of extending the transitional arrangement be included in the Withdrawal Agreement, the Committee will want to take evidence from you in person at the earliest opportunity to discuss the potential financial mechanism that might apply during an extension. We would also be grateful to receive any written reassurance you can provide in the interim that, *should* an extension to the transition ever be agreed, our concerns about the cost to UK taxpayers as outlined above are unfounded.

There would, of course, also be wider policy implications in the eventuality of an extension. A larger volume of EU law, some of it adopted with little or no UK control or effective or practical influence, would apply domestically as if we were still a Member State. That will be a preoccupation of the House as a whole, and a matter ourselves and other Select Committees will no doubt raise with Ministers where necessary.

I am copying this letter to the Rt Hon Nicky Morgan, Chair of the Treasury Committee; Sarah Rees, Clerk to the Treasury Committee; Lord Boswell and Christopher Johnson in the Lords; to Les Saunders at the Department for Exiting the EU; and to Barbara Armstrong at your Department.

Yours
Rees

CHAIR