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Territorial Impact Assessment The UK's withdrawal from the European Union

Disclaimer

This report was produced by the European Committee of the Regions secretariat to assist the ECON commission in determining the territorial impact of the UK's withdrawal, and specifically the potential asymmetric territorial impact within the EU27.

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This territorial impact assessment report is the outcome of an expert workshop organised by the European Committee of the Regions and ESPON EGTC in Brussels on 20 February 2018.

The ESPON TIA tool is designed to support the quantitative assessment of potential territorial impacts according to the Better Regulation guidelines. It is an interactive web application that can be used to support policy makers and practitioners in identifying, ex-ante, the potential territorial impact of new EU legislation, policies and directives (LPDs).

This report documents the results of the territorial impact assessment expert workshop on the UK's withdrawal from the European Union. It serves for information purposes only. It is meant to be used only as a decision-making aid and does not necessarily reflect the opinion of the members of the ESPON 2020 Monitoring Committee or the European Committee of the Regions.

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Acronyms and legend

CoR	European Committee of the Regions
EP	European Parliament
ESPON	European Observation Network for Territorial Development and Cohesion
LRA	Local and Regional Authority
MS	Member State(s)
NUTS	Nomenclature des unités territoriales statistiques Common classification of territorial units for statistical purposes
ÖIR	Austrian Institute for Spatial Planning (ÖIR)
TIA	Territorial Impact Assessment

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1 Introduction

Following the outcome of the referendum held on 23 June 2016, the UK Government formally invoked Article 50 of the Treaty on European Union on 29 March 2017, which triggered the launch of the two-year period to conclude a withdrawal agreement between the UK and the European Union.

Since the decision was taken that the UK would withdraw from the EU, a number of studies and reports have looked at the possible consequences of this withdrawal on socio-economic conditions in the EU. Most of these studies focus mainly on the global and Member State levels. To date, the possible socio-economic impact of the UK's withdrawal from the EU at local and regional level has not been given particular attention and only some regions are starting to look into what the UK withdrawal would mean for their economies and societies.

These developments and issues raise important questions for policy makers who need to define and coordinate appropriate regulatory, financial and support frameworks. Local and regional authorities (LRAs) face particular challenges as they need both to develop a long-term, global vision and to formulate strategies to address the adverse effects of the UK leaving the EU on their local economies.

Considering the substantial expected repercussions from the UK's withdrawal and the potential asymmetric territorial impact within the EU27, the aim of this Territorial Impact Assessment was to determine territorial impacts on EU27 regions, and to measure what the UK's withdrawal from the EU would mean from a social and economic perspective for regional and local authorities in the EU27.

A recent study by Chen *et al*¹, presented at the start of the workshop by Professor Philip McCann, developed "an index of (...) exposure (to Brexit) , which incorporates all effects due to geographically fragmented production processes within the UK, the EU and beyond. (Their) findings demonstrate that UK regions are far more exposed than regions in other countries. Only regions in the Republic of Ireland face exposure levels similar to some UK regions, while the next most affected regions are in Germany, The Netherlands, Belgium and France". This study focused on the exposure of European regions to trade-related risks of Brexit, bearing in mind the complex global value chains that criss-cross borders many times. It also showed that Remain-voting areas like London and Scotland were the least exposed regions in the UK.

At the start of the workshop, François Levarlet presented a study² commissioned by the European Committee of the Regions' Unit C2 – ECON on the exposure of EU27 regions to the UK and the likely impact of the UK's withdrawal from the EU on regions and cities in the EU27. The study concluded that there were no clear winners in terms of new economic opportunities deriving from the UK's withdrawal from the EU, whereas most regions were set to make losses in general terms. In addition,

¹ Chen W, Los B, McCann P, Ortega-Argilés R, Thissen M, van Oort F. The continental divide? Economic exposure to Brexit in regions and countries on both sides of The Channel. *Pap Reg Sci*. 2018;97:25–54. <https://doi.org/10.1111/pirs.12334>.

² Levarlet F, Seri P, Hrelja D, Lorgeoux E (t33); contributions from Lüer C (Spatial Foresight) and Derszniak-Noirjean M (ÖIR). Assessing the impact of the UK's withdrawal from the EU on regions and cities in EU27. *European Committee of the Regions*, Specific Contract 7298, implementing framework contract n° CDR/DE/16/2015/1.

there are regions in a 'grey' situation where certain activities will lose out from the UK's withdrawal, while others will benefit in some way. The final impact on the budgets of local and regional authorities deriving from potential cuts to EU cohesion policy will depend on future political decisions and budgetary arbitration made at EU and national levels.

Finally, Bert Kuby, head of the CoR's ECON Unit, presented the results of a survey conducted by the CoR in cooperation with EUROCHAMBRES among LRAs and chambers of commerce, as they are key to public and private sector preparation for Brexit. The responses indicating negative impacts dominate, with the most negative impact anticipated in the policy areas of trade (66%) and employment (58%) and in the sectors of tourism (59.5%), services (49%) and manufacturing (47%). Less than a third of regions have already undertaken actions to prepare for the UK's withdrawal. As many as three to four fifths of respondents are in favour of EU-wide actions that aim to assess the territorial impacts of the withdrawal of the UK from the EU and to introduce financial mechanisms that support those regions that are more negatively affected by it.

These three elements were the departing point of the workshop, with experts coming from local and regional authorities, academia and economic actors and from several countries.

2 Methodology: ESPON Quick Check

The concept of territorial impact assessment (TIA) aims to show the regional differentiation in the impact of EU policies. The ESPON TIA tool³ is an interactive web application that can be used to support policy makers and practitioners in identifying, ex-ante, the potential territorial impact of new EU legislation, policies and directives (LPDs). The 'ESPON TIA Quick Check' approach combines a workshop setting for identifying systemic relations between a policy and its territorial consequences with a set of indicators describing the sensitivity of European regions.

It helps to steer an expert discussion about the potential territorial effects of an EU policy proposal by checking all relevant indicators in a workshop setting. The results of the guided expert discussion are judgements about the potential territorial impact of an EU policy considering different thematic fields (economy, society, environment, governance) for a range of indicators. These results are fed into the ESPON TIA Quick Check web tool.

The web tool combines the expert judgements on exposure with the different sensitivities of regions and translates them into maps showing the potential territorial impact of EU policy at NUTS3 level. These maps serve as a starting point for further discussion of the different impacts of a specific EU policy on different regions. Consequently, the experts participating in the workshop provide important input for this quick check on the potential territorial effects of an EU policy proposal.

The workshop on the UK's withdrawal from the European Union was held in Brussels on 20 February 2018 and brought together a number of experts representing various organisations and LRAs.

Two moderators from the ÖIR, provided by ESPON, prepared and guided the workshop and handled the ESPON TIA tool.

Figure 1 – Workshop discussion



Source: Territorial impact assessment expert workshop, Brussels, 20 February 2018, ÖIR

³ https://www.espon.eu/main/Menu_ToolsandMaps/TIA/

2.1 Identifying the potential territorial effects considering economic, social, environmental and governance aspects – drafting a conceptual model

In the first stage of the TIA workshop the participating experts discussed the potential effects of the UK's withdrawal from the European Union.

This discussion revealed potential territorial impacts of the UK's withdrawal from the European Union based on economy-, society-, environment- and governance-related indicators. The participants identified potential linkages between the UK's withdrawal from the European Union and the effect on territories, including interdependencies and feedback loops between different effects (see figure below).

Figure 2 – Workshop findings: Systemic picture



Source: Territorial impact assessment expert workshop, Brussels, 11 October 2017

2.2. Identifying the types of region affected

The ESPON TIA tool provides several regional typologies⁴ for analysis, taking into consideration the types of territories mentioned in Article 174 of the Treaty on the Functioning of the European Union: urban/metropolitan regions; rural regions; sparsely populated regions; regions in industrial transition; cross-border regions; mountainous regions; and islands and coastal regions. The experts agreed on two different measurements of regions that could reflect the impact of the UK's withdrawal from the EU differently:

⁴ <https://www.espon.eu/tools-maps/regional-typologies>

- Type A: All regions of the EU27 (= EU28 without the UK), weighted equally
- Type B: The regions of the EU27 weighted according to the exposure of their GDP to Brexit.

2.3. Picturing the potential territorial effects through indicators

In order to assess the potential effects depicted in the conceptual model, suitable indicators need to be selected related to the parameters discussed by the experts in the fields of the economy, environment, society and governance. The availability of data for all NUTS 3 regions sets certain limitations on the indicators that can be used. From the available indicators that the ESPON TIA Quick Check web tool offers, the experts chose the following indicators to describe the identified effects.

Depicting potential territorial impacts based on economic indicators

- Accessibility by air
- Multimodal accessibility
- Total patent applications per million inhabitants
- Total overnight stays per thousand inhabitants
- Share of persons employed in agriculture, forestry and fishing
- Share of persons employed in financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support service activities
- Share of persons employed in technology and knowledge-intensive sectors

Depicting potential territorial impacts based on governance-related indicators

- Quality and accountability of government services
- Share of ERDF & CF expenditure in GDP
- Share of EAGF & EAFRD expenditure in GDP

Depicting potential territorial impacts based on environmental indicators

- Emissions of CO₂ per capita (tonnes)

2.4. Judging the intensity of the potential effects

The participants in the workshop were asked to estimate the potential effects deriving from the impact of the UK's withdrawal from the EU on EU27 regions. They judged the potential effect on the territorial welfare according to the following scores:

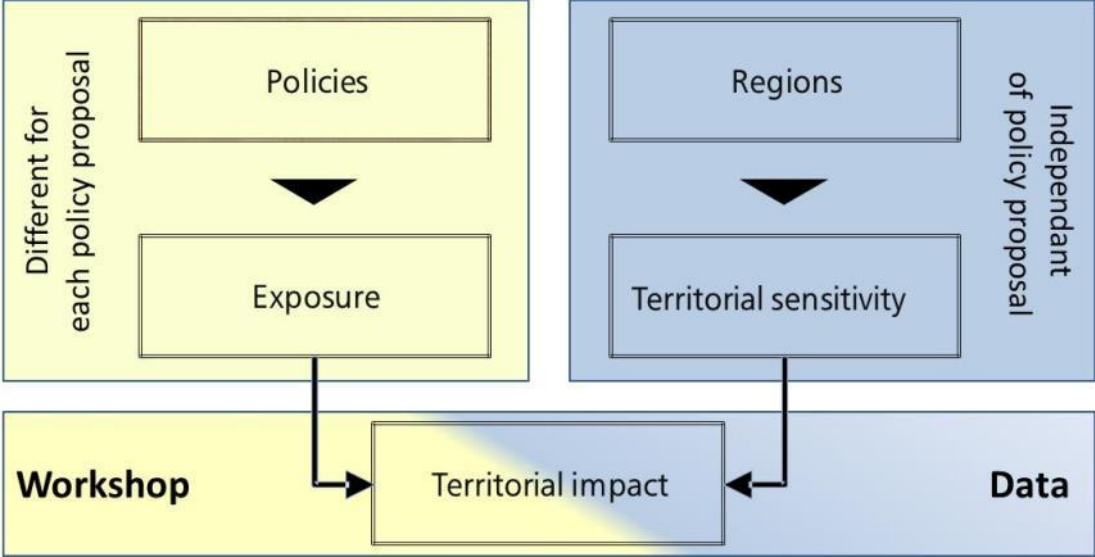
- ++ strong advantageous effect on territorial welfare (strong increase)
- + weak advantageous effect on territorial welfare (increase)
- o no effect/unknown effect/effect cannot be specified
- - weak disadvantageous effect on territorial welfare (decrease)
- -- strong disadvantageous effect on territorial welfare (strong decrease)

2.5. Combining the experts' judgement with the regional sensitivity

The ESPON TIA Quick Check combines the experts' judgement on the potential effect deriving from the impact of the UK's withdrawal from the EU on EU27 regions (**exposure**) with indicators picturing the sensitivity of regions, resulting in maps showing a territorially differentiated impact. This approach is based on the **vulnerability concept** developed by the Intergovernmental Panel on Climate Change

(IPCC). In this case, the effects deriving from a particular policy measure (exposure) are combined with the characteristics of a region (**territorial sensitivity**) to produce potential territorial impacts (cf. following figure).

Figure 3 – Exposure x territorial sensitivity = territorial impact



Source: ÖIR, 2015.

- 'Territorial Sensitivity' describes the baseline situation of the region according to its ability to cope with external effects. It is a characteristic of a region that can be described by different indicators independently of the topic analysed.
- 'Exposure' describes the intensity of the potential effect caused by the UK's withdrawal from the EU on a specific indicator. Exposure illustrates the experts' judgement, i.e. the main findings of the expert discussion at the TIA workshop.

2.6. Mapping the potential territorial impact

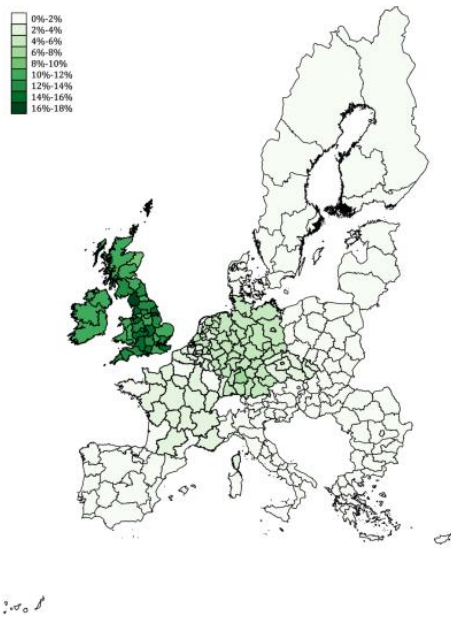
The result of the territorial impact assessment is presented in maps. The maps displayed below show potential territorial impacts based on a combination of the experts' judgements on the exposure with the territorial sensitivity of a region, described by an indicator at NUTS3 level. Whereas the experts' judgement is qualitative (i.e. strong advantageous effect on territorial welfare/weak advantageous effect/no effect/weak disadvantageous effect/strong disadvantageous effect), the sensitivity is a quantitative indicator. (A detailed description is provided in the appendix.).

3 Expected economic effects

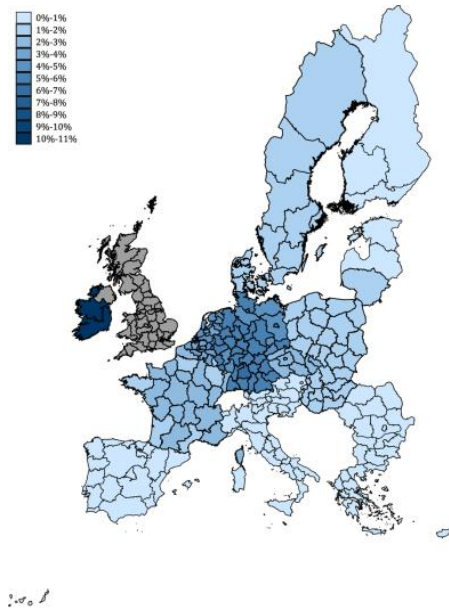
3.1 GDP exposure to Brexit: discussion

A recent study by Chen *et al* developed "an index of (...) exposure (to Brexit), which incorporates all effects due to geographically fragmented production processes within the UK, the EU and beyond". The exposure of regions, at NUTS2 level, is based on the merging of the information contained in a series of data sources. The main question behind their analysis is how big the required structural and economic adjustments triggered by the UK leaving are for any given region. The authors analysed four areas: primary industries, manufacturing, construction and services. From those elements, they calculated an aggregate economic exposure.

Overall, Ireland is the most affected country, with both NUTS2⁵ regions having an exposure above 10%. Out of the more than 200 regions analysed in the study, 36 have an exposure of above 5%; of these almost all are German (headed by Stuttgart, Tübingen and Upper Bavaria). Malta is also one of the most affected countries (5.08% exposure). Dutch regions have high exposure levels, ranging from 5.16% in Zeeland to 3.67% in Utrecht, followed by Belgian ones (ranging from 4.14% in Walloon Brabant to 2.78% in the Brussels-Capital Region).



Map 1 - Regional shares of local GDP exposed to Brexit (including the UK). Source: Chen *et al*.



Map 2 - Regional shares of local GDP exposed to Brexit (excluding the UK). Source: Chen *et al*.

⁵ The NUTS 2013 was the version applied in all maps used throughout the workshop and in the studies here mentioned. The currently applicable version is the NUTS 2016 classification, valid from 1 January 2018 and listing 133 regions at NUTS 1, 311 regions at NUTS 2 and 1373 regions at NUTS 3 level. A correspondence table is available at <http://ec.europa.eu/eurostat/web/nuts/national-structures-eu>.

Such exposure is trade-related only. It gives us an image of the risks that each region faces because a disruption in trade could come in multiple forms. If the UK abandons the customs union, higher costs and lengthier procedures would follow. If the UK abandons the Single Market, the different standards will entail a rise in production costs and bureaucracy to have products certified. This does not automatically mean that a more exposed region is going to lose out from the UK's withdrawal from the EU: as several experts noted, knowledge-intensive industries might be able to redirect their products to other markets. Crucially, reduced trade links between the UK and EU27 might, through a substitution effect, even generate business opportunities for some companies, replacing British goods and service providers within the internal market. Nevertheless, the maps above show us the degree of risk for each region, which should not be underestimated. The type of economic fabric might also have a role to play. SMEs do not have the same resources as large companies to prepare for an economic shock of this magnitude. Regions with higher concentrations of big companies might thus be more exposed, but also more resistant to Brexit, because those companies are already developing the means to overcome potential trade barriers. This also depends very much on how small and large companies are involved in global value chains, or regional value chains.

Conversely, regions dependent on economic activities with low added value might suffer a knock-on effect from one sector (agriculture and fisheries, tourism) to others (for example food-processing industries, real estate) and thus lose much larger proportions than could initially have been anticipated from a mere geostatistical analysis.

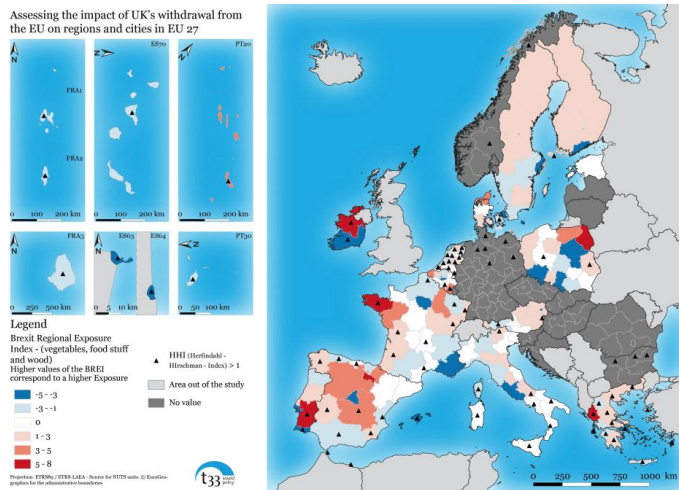
Experts from regions, cities, chambers of commerce and associations representing regions that participated in the TIA workshop highlighted that some results in the studies and raised during the workshop must be interpreted carefully. This relates for instance to the fact that the focus on GDP/trade inevitably means that regions with higher levels of GDP/trading patterns come out as most affected by Brexit, which can mask and understate the impact on other regions where economic activities are smaller but more concentrated. It was also underlined that the complexities and interlinkages within regions – cultural, economic and social linkages – do not necessarily get picked up in statistics-based analysis: hence the experts' concluding comments on the need for more specific, localised impact studies to get a better understanding of the potential impact of Brexit.

Moreover, the experts noted that the dynamic effects of Brexit were difficult to capture, due both to a lack of data and to the overwhelming uncertainty of the ongoing political negotiations. The way regions, countries and companies are reacting and will continue to react will influence the final effects of the UK's withdrawal from the EU.

3.2 Primary Sector

Though there was not a complete consensus, the experts attending the workshop mostly agreed that agriculture and fisheries were sectors facing sizeable risks, with a majority of them believing there would be a weak negative impact.

The study undertaken by t33 shows a high impact in western France (especially Brittany), the Centre and North regions of Spain, West Flanders, large parts of Greece, Portugal and Poland, and Ireland.



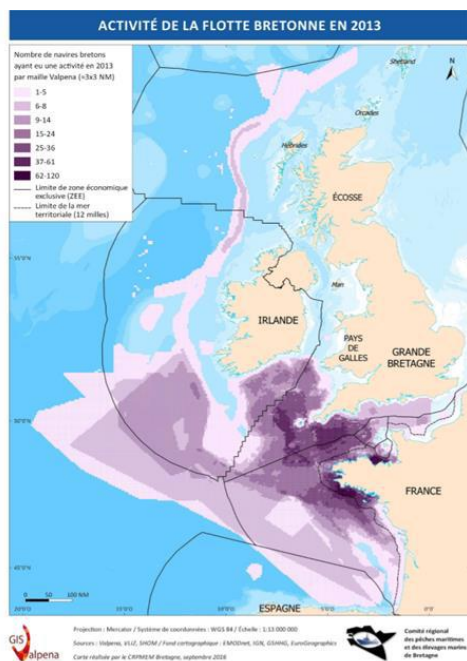
Map 3 - Exposure index for vegetables, foodstuffs and wood, regional level. Source: t33

With a different methodology, explained above, the study by Chen *et al.* reveals a strong impact throughout the whole of Ireland, followed at a considerable distance by the Netherlands and Belgium.

Table 1 – The 20 most exposed NUTS2 regions in primary industries. Source, Chen *et al.*

Region	Country	Exposure	Region	Country	Exposure
Border Midlands and Western	Ireland	30.1%	Zeeland	Netherlands	9.6%
Southern and Eastern	Ireland	23.8%	Friesland (NL)	Netherlands	9.1%
Noord-Holland	Netherlands	12.3%	Groningen	Netherlands	8.6%
Flevoland	Netherlands	12.3%	Hovedstaden	Denmark	8.4%
Noord-Brabant	Netherlands	12.2%	Drenthe	Netherlands	8.3%
Limburg (NL)	Netherlands	11.4%	Prov. Luxembourg (BE)	Belgium	7.7%
Gelderland	Netherlands	11.4%	Prov. West-Vlaanderen	Belgium	7.0%
Zuid-Holland	Netherlands	11.1%	Prov. Limburg (BE)	Belgium	6.8%
Overijssel	Netherlands	11.0%	Prov. Namur	Belgium	6.3%
Utrecht	Netherlands	10.4%	Prov. Antwerpen	Belgium	6.2%

Besides this data, for regions such as Brittany or Galicia, as well as the whole of Ireland, a potential closing of British waters (not only the Exclusive Economic Zone of Great Britain and Northern Ireland, but also that of British dependencies, such as the Falkland Islands) presents considerable dangers.



Map 4 – Activity of the fishing fleet of Brittany, 2013

Source: *Consequences of "Brexit" for the Atlantic Arc Regions*, Atlantic Arc Commission

In the map above we can see one of the potential impacts of the UK's withdrawal from the EU. As explained by the CPMR Atlantic Arc Commission, one of the principles of the Common Fisheries Policy states that vessels registered with the EU fishing fleet register have equal access to EU waters and their resources and "Breton vessels conduct 50% of their activities in the UK's Exclusive Economic Zone (EEZ). The Irish realize 30% of their catch in British waters."⁶ As fisheries are often the drivers of local economies, their impact could be multiplied throughout the secondary (food industries) and the tertiary (tourism, trade) sectors.

3.3 Secondary Sector

The range of industries that will be affected, and the extent to which they will be affected, will depend on the final agreement reached between the UK and the EU27 with regard to their future relationship.

The exposure for manufacturers is extremely high, when compared to the primary industries. Indeed, there are 50 NUTS2 regions that, according to Chen *et al.*, have an exposure to the withdrawal of the UK from the EU of 10% or more.

Table 2 – NUTS2 regions with 10% or more Brexit exposure.

Source: Chen *et al.*

Region	Country	Exposure	Region	Country	Exposure
Southern and Eastern	Ireland	18.8%	Dresden	Germany	13.8%
Border Midlands and Western	Ireland	18.0%	Brandenburg-Nordost	Germany	13.6%
Hamburg	German	17.5%	Thuringen	Germany	13.6%
Berlin	German	17.2%	Tübingen	Germany	13.6%
Köln	German	16.8%	Oberfranken	Germany	13.6%
Düsseldorf	German	16.7%	Lüneburg	Germany	13.6%
Darmstadt	German	16.2%	Weser-Ems	Germany	13.6%
Schleswig-Holstein	German	16.1%	Giessen	Germany	13.5%
Halle	German	16.0%	Niederbayern	Germany	13.5%

⁶ "Consequences of "Brexit" for the Atlantic Arc Regions" – Technical note from the Atlantic Arc Commission, 20 February 2017.

Brandenburg-Sudwest	German	15.6%	Koblenz	Germany	13.4%
Magdeburg	German	15.6%	Mittelfranken	Germany	13.4%
Münster	German	15.0%	Detmold	Germany	13.4%
Mecklenburg-Vorpommern	German	15.0%	Trier	Germany	13.4%
Chemnitz	German	15.0%	Karlsruhe	Germany	13.3%
Oberbayern	German	15.0%	Oberpfalz	Germany	13.0%
Rhein Hessen-Pfalz	German	14.9%	Schwaben	Germany	13.0%
Bremen	German	14.9%	Saarland	Germany	13.0%
Dessau	German	14.8%	Freiburg	Germany	12.7%
Arnsberg	German	14.5%	Zuid-Holland	Netherlands	11.4%
Stuttgart	German	14.5%	Île-de-France	France	10.7%
Hannover	German	14.5%	Flevoland	Netherlands	10.5%
Leipzig	German	14.4%	Region de Bruxelles-Capitale	Belgium	10.3%
Kassel	German	14.0%	Groningen	Netherlands	10.2%
Braunschweig	German	14.0%	Noord-Holland	Netherlands	10.2%
Unterfranken	German	14.0%	Overijssel	Netherlands	10.0%

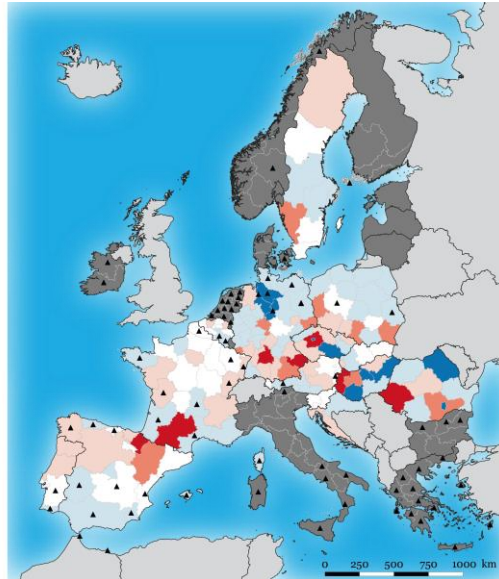
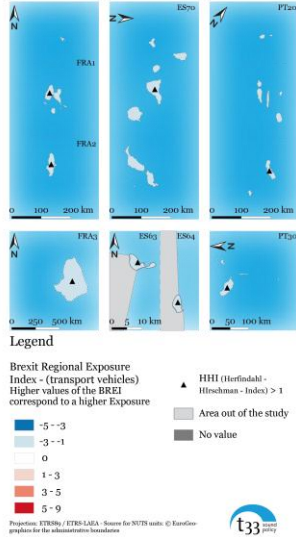
Again, Ireland is globally the most exposed country, with both NUTS2 regions being equally affected. The second most affected country is Germany, with the cities of Hamburg, Berlin and, in the state of North Rhine-Westphalia, Cologne and Düsseldorf, having similar levels of exposure to those in the Irish regions. At some distance behind, the Dutch Randstad regions, as well as Île-de-France and Brussels, are also above the 10% level of exposure.

During the workshop, the experts did not focus on specific regions. Nevertheless, the study conducted by t33 analysed several sectors:

- in transport vehicles, Vest development region (Romania), Stuttgart and Niederbayern (Germany) and Midi-Pyrénées (France) are likely to be the most affected;
- in other sectors, the results are more diffuse. In textiles, one region that seems severely affected is northern Portugal; in chemicals and plastics, several regions across Spain, France and Germany, as well as in Ireland and Bulgaria, could be negatively impacted;
- in machinery, the regions between southern Germany and northern Italy seem to be most exposed.

It is worth noting here that even less exposed countries can contain regions with very high exposure. This is the case, for example, with the Vest and Nord-Vest regions of Romania, which are among the regions likely to be exposed in the sector of "transport vehicles", as shown in the following figure.

Assessing the impact of UK's withdrawal from the EU on regions and cities in EU 27



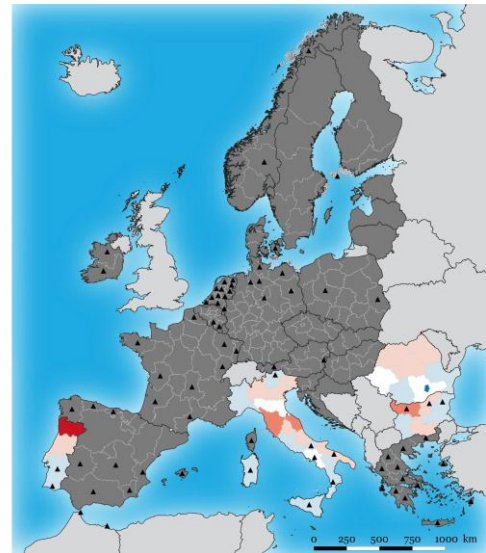
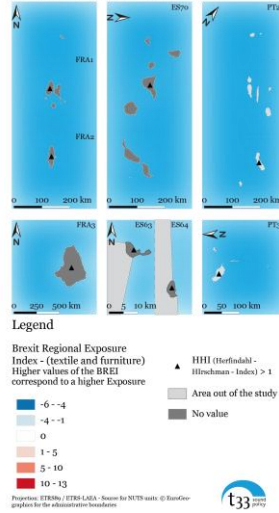
Map 5 – Exposure to Brexit in the transport vehicles sector.

Source: t33

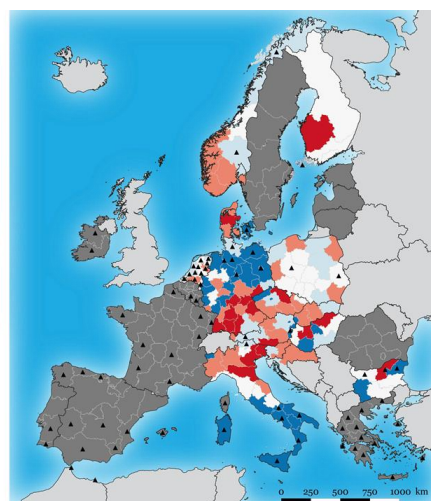
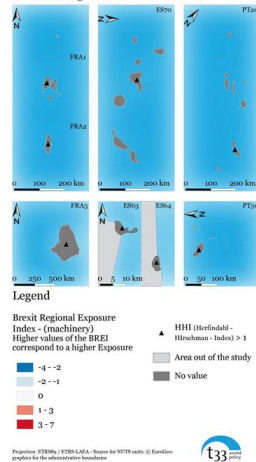
Map 6 – Exposure to Brexit in the textile and furniture sectors

Source: t33

Assessing the impact of UK's withdrawal from the EU on regions and cities in EU 27



Assessing the impact of UK's withdrawal from the EU on regions and cities in EU 27



Map 7 – Exposure to Brexit in the machinery sector.

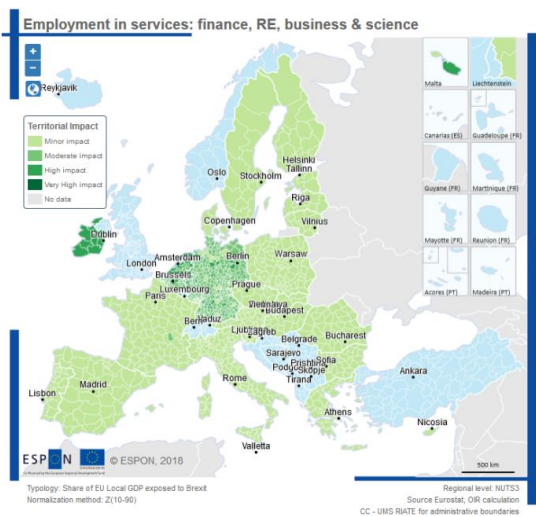
Source: t33

3.4 Tertiary Sector

The experts had mixed opinions concerning the impact of the UK's withdrawal from the EU. There are new opportunities in the banking and finance sector for some of the richest and most central regions of the EU27, such as Frankfurt, Paris and Brussels. The relocation of at least part of the British financial sector to Ireland or the continent could thus have a positive impact on the economies of the European Union.

When it comes to the expected impact in certain sectors (manufacturing, general services, financial services, tourism and agriculture), the CoR/ EUROCHAMBRES survey shows that, while the respondents expect a negative impact more often than a positive one, the expectations of positive impact were higher in financial services (13%) than in other sectors. However, if we look into the replies by chambers of commerce the results are slightly more positive, with almost 19% of them expecting a positive impact on financial services.

The following map shows the potential territorial impact from the UK's withdrawal from the EU on employment in finance, real estate, business and science. It combines the experts' judgement with the given sensitivity of the regions. This indicator depicts the share of persons employed in financial and insurance activities, real estate activities, professional, scientific and technical activities and administrative and support service activities (NACE Rev. 2). Regions with a higher share of employment in these sectors are expected to be influenced more by changes concerning these sectors resulting from Brexit.



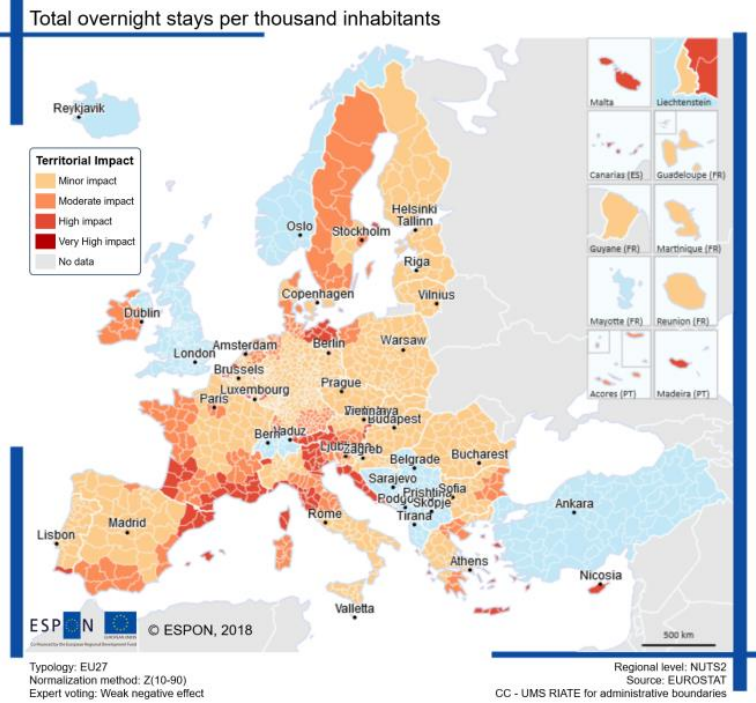
Map 8- Result of the experts' judgement: employment in services: finance, real estate, business and science affected by the UK's withdrawal from the European Union.

Expert judgement: weak positive effect, Type EU27 weighted according to the exposure of their GDP to Brexit.

On the other hand, regions strongly dependent on tourism might suffer from the future effects of Brexit, especially if a disorderly withdrawal hinders the movement of travellers. This is especially true for traditional popular destinations for British tourists, in the Mediterranean and the Atlantic coastal regions of Portugal and France. It transpires from the CoR/EUROCHAMBRES survey that the most negative impact is expected in tourism (59.5%) and services (49%).

The following map shows the potential territorial impact on tourism of the UK's withdrawal from the EU, measured by the total overnight stays per thousand inhabitants. They combine the expert judgement of a weak disadvantageous effect for both types of region with the given sensitivity of the regions.

This indicator depicts the total nights spent at tourist accommodation establishments per thousand inhabitants. It comprises hotels, holiday and other short-stay accommodation, camping grounds, recreational vehicle parks and trailer parks. Regions with higher levels of tourism are likely to be influenced more strongly by the impact of the UK's withdrawal from the EU. Sensitivity is thus directly proportional to the total number of nights by population.



Map 9 - Result of the experts' judgement: total overnight stays per thousand inhabitants affected by the UK's withdrawal from the European Union.

Expert judgement: weak negative effect, Type EU27 equally weighted.

3.5 Customs and Direct Investment

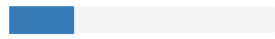
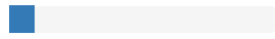

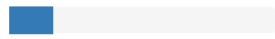
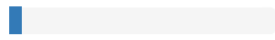
There was broad consensus that the withdrawal of the UK would have widespread effects in transport and customs. With no free movement of people and potentially high barriers to trade (which would be the case in the WTO scenario), new challenges will arise. In particular, ports, airports and other transport hubs will have to implement a new regulatory framework in the transport of goods and people between the UK and the EU27. This will entail investment in machinery, software, staff and personnel training, as well as hiring new staff to comply with the new regulations.

A relevant case study presented in the t33 study concerns the region of Flanders and the ports of Belgium. Continental ports are worried since it is not clear whether they will have to reorganise ports to carry out border checks. It is also not very clear how extensive these additional checks will be. It is noted that, in 2013, industry accounted for 20% of gross value-added in the Flemish region, while trade, transport and restaurants accounted for 21.7%. Flanders is also an important logistics hub, due to its central location and its dense and integrated multimodal transport infrastructure.

Another area that might see significant instability is investment. Almost half of respondents to the survey organised by the CoR and EUROCHAMBRES believe there might be negative consequences for their regions.

Figure 4 – Survey on the UK's withdrawal from the EU: almost 50% of respondents fear negative consequences in terms of investment

What kind of impact do you expect that the UK's withdrawal from the EU will have on your region/city in the following areas? : Investments

		Answers	Ratio
No impact		66	23.83 %
Positive impact/Opportunity		25	9.03 %
Negative impact/Threat		130	46.93 %
Don't know		44	15.88 %
No Answer		12	4.33 %

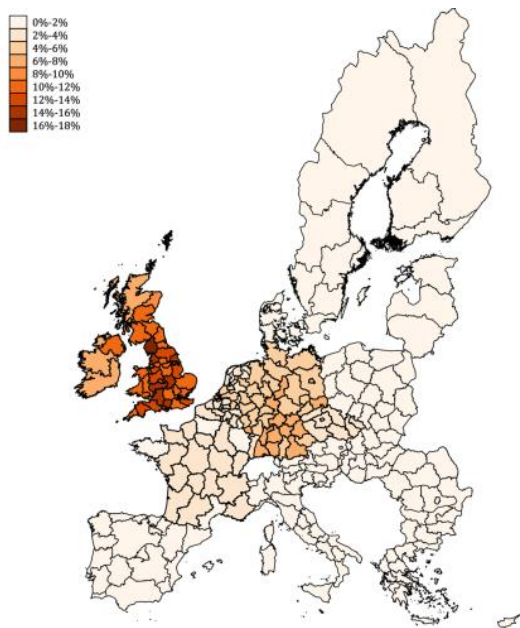
An empirical study on intra-European FDI flows has been recently conducted by ESPON⁷ which underscores that *"Brexit is likely to have an impact on intra-European FDI. If more frictions arise in trade between the EU and the UK, Brexit may cause reallocations of FDI between the UK and other EU member states. European owned firms located in the UK that are dependent on access to the Internal Market may choose to relocate to another EU Member State following Brexit. Likewise, firms located in an EU Member State that sell a large share of their production on the UK market may wish to relocate to the UK in order to avoid tariffs and non-tariff barriers to trade which might arise in the future. The extent to which Brexit will influence the location of future FDI flows within Europe and cause relocations of existing investments remains to be seen."*

During the workshop, the experts did mention that, if the UK is to leave, EU Member States may try and take the UK's position as the EU's most popular destination for foreign direct investment. Over the past 15 years, the UK has received more than 20% of inward EU FDI but, without full access to the EU's internal market, future FDI flows into sectors like automotive factories and financial services hubs that would have gone to the UK had it remained a member of the EU might be redirected and create growth elsewhere in the EU.

3.6 Labour exposure to Brexit

Replicating the values that we have seen previously in each economic sector, the exposure of labour and income to Brexit-related trade, extracted from the aforementioned study by Chen *et al.*, is mainly concentrated, in EU27 terms, in north-western Europe: Ireland first and foremost, and then Germany, the Netherlands and Belgium.

⁷ ESPON, "The World in Europe: global FDI flows towards Europe"



Map 10 - Regional shares of local labour income exposed to Brexit, per NUTS2 level.

Source: Chen *et al*, p. 35.

To a much lesser extent, France and the Czech Republic have also higher percentages than the rest of the Member States.

On a smaller scale, the t33 study includes a concrete case study showing that La Línea de la Concepción (a municipality in the Campo de Gibraltar area, situated in the south of the province of Cadiz and next to Gibraltar) is an area that would most likely be negatively affected by a disorderly withdrawal of the UK. In fact, in the case of an EU27-UK trade relationship under the WTO scenario, many Spanish workers there could lose their jobs. Given that almost one in five residents of La Línea are employed in Gibraltar, the impact on families would be dramatic, causing a significant migration toward areas with more favourable employment conditions. Brexit would also have a negative impact on Gibraltarians living in La Línea de la Concepción who could be forced to move back to Gibraltar, where the cost of living is much higher.

4 Expected environmental effects

4.1 Energy

The experts considered that risks could arise in terms of energy supply, particularly for Ireland, which is heavily dependent on the UK for the transport of fossil fuels. Nevertheless, most experts were of the opinion that Brexit would not severely impact energy consumption, especially in the remaining EU27 countries. As only a minority of experts judged the effects to be relevant, no maps were drawn.

4.2 Natural Resources and Standards

On natural resources, and more specifically in fisheries, the experts referred to the danger of overfishing, should the UK unilaterally increase its own quotas. Without European environmental regulations falling under the Common Fisheries Policy, the danger might be that the British regulators would be more lax on fishing limits, thus affecting a resource that is not circumscribed by political borders. Regions with a strong fishing industry that also pursue their activities in British waters, such as Brittany and Galicia, would be severely affected by this.

Similarly, concerns were raised as to how committed the UK would be to international climate targets. In a WTO scenario, where the UK economy would be affected by various kinds of trade barriers, one possible reaction would be a regulatory race to the bottom. This would affect the health and quality of life not only of British residents, but also of residents of neighbouring countries, while damaging European efforts in international cooperation towards more ambitious climate targets.

5 Expected social effects

5.1 Border regions

Border regions with the UK (maritime included) were mentioned as being severely affected by Brexit. This is true especially for the border between Northern Ireland and the Republic of Ireland. Tens of thousands of students and workers need to cross the borders (sometimes more than once in each trip) in their daily commute. A hard border between the two territories would make such journeys impossible, and would make it very difficult to maintain the synergies that have been created in the business and academic sectors on both sides of the border.

Crucially, the peace process could be severely damaged. This is especially true as Northern Ireland risks losing access not only to the Common Market, but also to the European funds that support local government and its communities, adding an economic element to the political tensions. The PEACE Programme was initially set up in 1995 as a direct result of the EU's desire to make a positive response to the paramilitary ceasefires of 1994. It has continued to support the results of the Good Friday Agreement, and the PEACE IV Programme for 2014-2020 includes EUR 270 million, EUR 229 million of which is provided through the European Regional Development Fund (ERDF).



Map 11 - Territorial coverage of the PEACE IV special programme.

Source: Special EU Programmes Body.
<https://www.seupb.eu/piv-overview>.

Also problematic are the consequences for the border region of Gibraltar and La Línea de la Concepción in Spain, deeply interdependent in terms of labour. The French regions of Brittany and Hauts de France may also see their tourism and the transport of passengers affected.

Public administrations, especially in regions situated across a potential future EU27/UK border, are likely to bear an increased administrative burden since, if the UK leaves the Customs Union and/or the Single Market, higher costs and lengthier procedures would follow, different standards entail a vast increase in paperwork and human resources to have products certified, and port authorities might be called on to do border checks pertaining not only to goods but also to people (illegal migration).

The experts further noted that territorial cooperation, though it might not disappear completely, would have to be re-thought. There are currently a number of programmes involving the UK, such as *Interreg North-West Europe (NWE)*⁸, *Interreg V-A - United Kingdom-Ireland (Ireland-Northern Ireland-Scotland)*⁹ and *Interreg VA France (Channel) England*¹⁰.

⁸ www.nweurope.eu/.

⁹ http://ec.europa.eu/regional_policy/es/atlas/programmes/2014-2020/united-kingdom/2014tc16rfcb047.

5.2 Migration

Another issue pointed out during the workshop was the the future of British citizens living elsewhere in the European Union and EU27 citizens living in the UK. The uncertainties with regard to the UK's plans for honouring the current citizenship agreement (Joint declaration of December 2017) remain an issue for EU27 citizens residing in the UK might find themselves in legal limbo after March 2019. The reverse is equally challenging for those British citizens who choose to live in EU Member States for professional or other reasons.

As can be seen in the table below, Ireland is potentially one of the most affected countries, though this might be mitigated by the fact that many citizens have dual British and Irish nationality. The Mediterranean coast of Spain, with hundreds of thousands of British residents, and Malta, where British citizens make up three fifths of their EU migrants, might be more drastically affected in a disorderly withdrawal in which rights of residence are not secured.

Table 3 – 20 largest communities of people born in one EU Member State and living in another, 2011.
Source: Eurostat.

In absolute numbers				As a relative share (%)			
Rank	People living in but born in	(persons)	Rank	People living in but born in	(%)
1	Germany	Poland	2 749 670	1	Czech Republic	Slovakia	74.8
2	Italy	Romania	768 634	2	Slovenia	Croatia	69.9
3	Spain	Romania	690 505	3	Slovakia	Czech Republic	68.9
4	United Kingdom	Poland	654 010	4	Hungary	Romania	66.1
5	France	Portugal	617 235	5	Latvia	Lithuania	65.9
6	United Kingdom	Ireland	468 185	6	Malta	United Kingdom	59.5
7	Germany	Romania	449 920	7	Ireland	United Kingdom	51.8
8	Germany	Czech Republic	441 640	8	Lithuania	Latvia	51.4
9	France	Italy	345 038	9	Germany	Poland	51.1
10	Germany	Italy	330 730	10	Italy	Romania	49.1
11	United Kingdom	Germany	299 745	11	Croatia	Germany	47.7
12	Spain	United Kingdom	296 220	12	Portugal	France	45.3
13	Czech Republic	Slovakia	289 573	13	Luxembourg	Portugal	37.8
14	France	Spain	288 168	14	Spain	Romania	36.5
15	Ireland	United Kingdom	287 600	15	Finland	Sweden	36.2

(¹) For example, people born in the United Kingdom made up 59.5% of the population living in Malta who were born in another EU Member State.

Concerning EU27 citizens in the UK, according to the British Office of National Statistics there were 3.6 million EU migrants in the country as of 2017. Of these, more than half (1.9 million) came from the newest Member States, as noted by the experts: in recent years the influx of migrants from Member States in the latest enlargement waves has been especially large.

Table 4 – Population in the UK, broken down by origin, in thousands.
Source: [Office of National Statistics](#).¹¹

Total UK pop.	British citizens	Total Migrants	EU citizens					Rest of the World
			Total	EU14	EU8	EU2	Other	
64 952	55 614	9 317	3 635	1 659	1 445	431	101	5 682

¹⁰ <https://interreg5a-fce.eu/>.

¹¹ EU14 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Portugal, Republic of Ireland, Spain and Sweden); EU8 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia); EU2 (Bulgaria and Romania); Other (Cyprus, Malta and Croatia).

Of the five most common non-British nationalities for usual residents in the UK, four were from EU27 Member States: Poland (916 000), Republic of Ireland (332 000), Romania (233 000) and Portugal (219 000)¹². Among the EU27 countries, those with more than 1% of nationals living in the UK are Poland, Ireland, Cyprus, Malta, Latvia, Lithuania, Romania, Slovakia and Portugal¹³.

Migration affects regions asymmetrically, and one of the cases presented in the study for CoR's ECON Unit by t33 is the region of Małopolska. In that region alone, almost 1.5% of the population migrated to the UK¹⁴ in 2011, three times more than the population migrating to Germany.

The experts at the workshop also noted that it is difficult to discern how the asymmetries would play out at sub-national level. If a substantial number of migrants return from the UK after Brexit, there will be two opposite effects: (i) remittances will diminish, affecting first of all spending power in the depressed regions of the countries from which the migrants originate, and eventually the regional GDP/cap; on the other hand, (ii) if skilled workers return, such as nurses and IT professionals who are already in short supply in eastern Europe, the mid-term effect may be positive and more evenly spread over the territory. At this point, it is very hard to anticipate which effect will prevail. Moreover, even if some people in categories (i) and (ii) are forced to leave the UK, they may still relocate to other parts of northern Europe instead of returning home.

5.3 Education and Research

Brexit is expected to have strong effects on the innovation economy. While there is major uncertainty on what the outcome of negotiations will be and whether the UK will contribute to EU resources, and thus be allowed to participate in programmes such as Horizon 2020, it is clear that the effects will be felt in new cooperation projects.

Table 5 - Horizon 2020 UK Participation Statistics: UK Totals as of 30 September 2017.
Source: [UK Government](#)

Participations				
	Total participations	UK participations	UK share of total participations	UK ranking
Total	63 685	8 056	12.6%	2
EC Funding				
	EC total funding (€ millions)	EC funding to the UK (€ millions)	UK share of EC total funding	UK ranking
Total	26 655	3 974	14.9%	2

The UK plays a central role in the European Research and Development sector, capturing a disproportionately high share of participations (see Table 5) in European funds for R&D and hosting in its universities a large number of students and researchers from the EU27.

Respondents to the CoR/EUROCHAMBRES survey, especially those from Nordic countries, expressed concern with regard to the impact on cooperation programmes/joint EU projects (e.g. Horizon 2020), research and other knowledge exchange projects and access to academic networks.

Nonetheless, the experts were divided on how this would affect the remaining Member States. Asked what effects Brexit would have on the number of applications for patents, opinions were fairly divided, though no one thought the effects would be strongly negative.

¹² Source, [Office for National Statistics](#).

¹³ Source, [Office for National Statistics](#).

¹⁴ Data available at https://www.obserwatorium.malopolska.pl/wp-content/uploads/2017/05/EMIGRACJA_RAPORT_MAJ_2017_1.pdf, p.19.

While the UK's withdrawal could thus have an immediate negative impact on European research projects, over time we could see these resources – both financial and, fundamentally, human – feeding the R&D capabilities of the EU27, and especially those regions with more dynamic economic and educational sectors.

6 Expected governance effects

6.1 Consequences for LRAs

Most LRAs are facing challenges on how to deal with the UK's withdrawal from the EU. Whether it is public/private initiatives, the drafting of a strategy or even the implementation of specific studies, most respondents to the CoR/EUROCHAMBRES survey reported that nothing had so far been started or planned.

Figure 5 – Survey on the UK's withdrawal from the EU: over 60% of respondents have not started nor planned to start a structured response to Brexit

Impact Assessment/Study	Answers	Ratio	Cooperation actions between public and private sector stakeholders	Answers	Ratio
Already implemented	32	11.55 %	Already implemented	31	11.19 %
Planned/In planning	55	19.86 %	Planned/In planning	54	19.49 %
Neither planned nor implemented	175	63.18 %	Neither planned nor implemented	170	61.37 %
No Answer	15	5.42 %	No Answer	22	7.94 %
Development of a strategy to address the impact	Answers	Ratio	Actions by individual businesses or associations/groups of businesses	Answers	Ratio
Already implemented	9	3.25 %	Already implemented	35	12.64 %
Planned/In planning	68	24.55 %	Planned/In planning	71	25.63 %
Neither planned nor implemented	180	64.98 %	Neither planned nor implemented	148	53.43 %
No Answer	20	7.22 %	No Answer	23	8.3 %

Local and regional authorities are not expected to be adversely impacted as regards their internal administration. That said, and as depicted in the maps below, the experts participating in the TIA workshop stressed that cuts to the EU budget resulting from the departure of an important net contributor to the EU's finances would have negative impacts on regions that benefit from funds such as the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF) and the Cohesion Fund (CF).

The same conclusion can be drawn from the survey organised by the European Committee of the Regions and EUROCHAMBRES. It was clear that a majority of local and regional authorities were worried about budgetary constraints resulting from the UK's withdrawal from the EU. Almost 60% believe that financial losses would be possible due to a reduction in the EU's budget.

Figure 6 – Answers to Survey on the UK's withdrawal from the EU: budgetary effects.

What kind of impact, overall, do you expect that the UK's withdrawal from the EU will have on the budget of your region/city?	Answers	Ratio	How and to what extent do you expect that the budget of your region/city will be affected by the UK's withdrawal from the EU? : By a decrease in the funding from a smaller EU budget (as the UK is a net contributor)	Answers	Ratio
No impact	95	34.3 %	To a large extent	61	22.02 %
Positive impact	9	3.25 %	To a medium extent	104	37.55 %
Negative impact	146	52.71 %	To little or no extent	78	28.16 %
Don't know	25	9.03 %	Don't know	27	9.75 %
No Answer	4	1.44 %	No Answer	7	2.53 %

Map 12 shows the potential territorial impact of the UK's withdrawal from the EU on EU funding, measured as the relation to the share of ERDF and CF expenditure in GDP. They combine the experts' judgement with the given sensitivity of the regions.

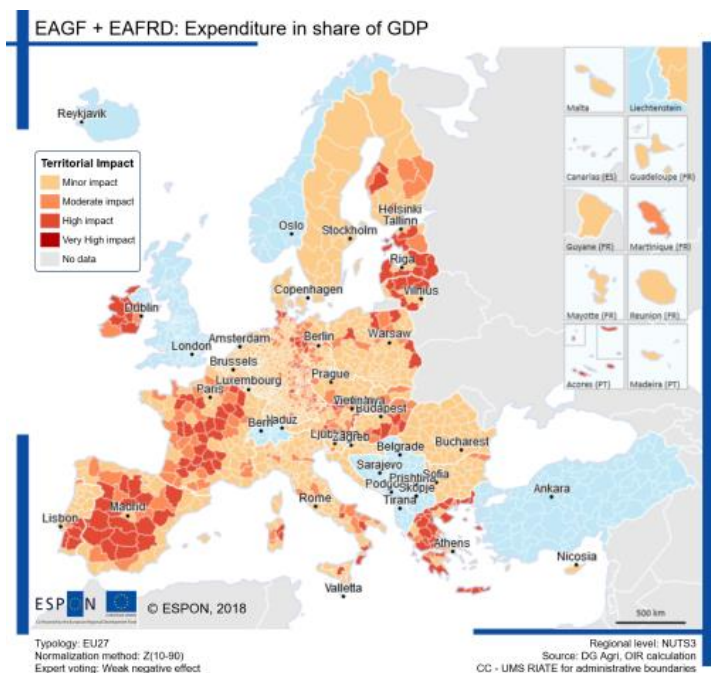
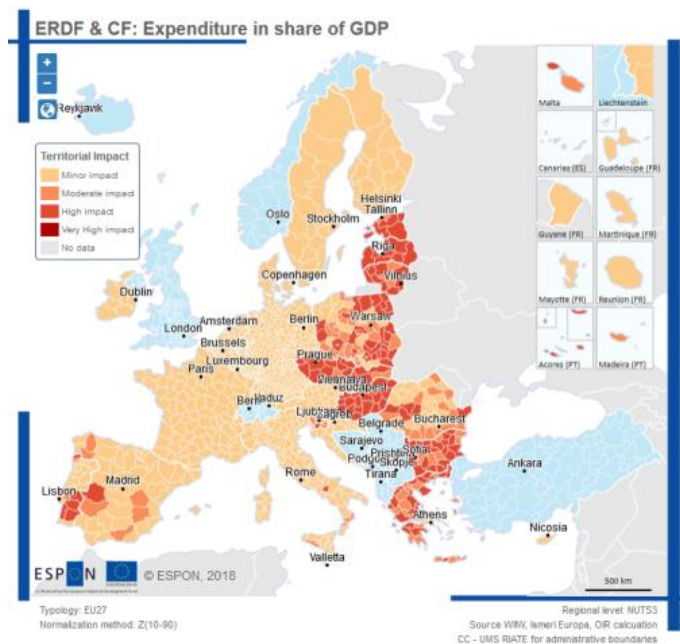
This indicator shows the yearly average share of ERDF and CF expenditure in GDP from 2004 to 2008. Regions with a greater share of ERDF and CF expenditure are considered to be more sensitive to the impact of the UK's withdrawal from the EU. Sensitivity is therefore directly proportional.

Map 13 shows the potential territorial impact of the UK's withdrawal from the EU on EU funding for agriculture, measured by the share of EAGF and EAFRD expenditure in GDP. They combine the experts' judgement with the given sensitivity of regions.

This indicator shows the yearly average share of EAGF and EAFRD expenditure in GDP from 2004 to 2008. Regions with a greater share of EAGF and EAFRD expenditure are considered to be more sensitive to the impact of BREXIT. Sensitivity is therefore directly proportional.

Map 12 - Result of the experts' judgement: share of ERDF and CF expenditure in GDP affected by the UK's withdrawal from the European Union –

Expert judgement: weak negative effect, Type EU 27 equally weighted.



Map 13 - Result of the experts' judgement: share of EAGF and EAFRD expenditure in GDP affected by the UK's withdrawal from the European Union.

Expert judgement: weak negative effect, Type EU27 equally weighted.

6.2 EU governance

The experts mentioned that it was also possible that Brexit could have implications in terms of political dynamics within the EU. The UK has typically been more vocal in opposing protectionist policies. It has been critical of some European policies, such as the Common Agricultural Policy. One could therefore expect a shift in the balance of views and opinions as a result of losing the UK – which could result in a new dynamic. This dynamic could equate to increased support for internal redistribution policies but it is impossible to predict what that new dynamic will be.

The departure of the UK could also create a greater sense of unity among the EU27 Member States. Without a Member State that has traditionally been wary of deeper political integration, and given the need to answer pressing challenges, there could be a push for integration.

6.3 Impact on devolved administrations in the UK

Although the focus of the workshop was on the likely impact of the UK leaving on regions and cities in the EU27, the experts also touched on some dimensions of the expected impact on regions in the UK. For the UK the effects may in fact be less favourable. The experts pointed out that there was a growing concern about re-centralisation of powers within the UK. Indeed, the argument surrounding the plebiscitary victory of Brexit presupposes that there is a unitary will in the country. And as Albert Weale states, "(f)ormally speaking, the UK is a unitary state. There are no constitutionally protected spheres of action assigned to sub-national government. Although the devolution legislation had constitutional effects, its status is that of ordinary statute law. The corollary is that there is a 'British people' whose will was expressed in the referendum result."

In this sense, and knowing that both Scotland and Northern Ireland voted strongly in favour of remaining in the EU, there are serious risks not only with Brexit itself, but also in its potential consequences in terms of backtracking previous policies of devolution within the UK.

The Scottish government, in an early warning concerning a possible scenario of this nature, has written that any proposal to take back powers from Scotland to the UK Parliament and government on leaving the EU would require the consent of the Scottish Parliament under the Sewel Convention, and manifested no support for such an action.

Such tensions may reflect themselves in positive ways. Specifically, one possible outcome could be stronger bilateral cooperation between these regions and European, national and regional authorities in the EU27, in a concerted effort to minimise the negative impact of the UK's withdrawal from the EU.

7 Conclusions and Recommendations

7.1 The uncertainty surrounding the UK's withdrawal from the EU

This workshop brought together around 15 experts from a variety of backgrounds (regional authorities, chambers of commerce, business, academia) and regions of Europe. We started by presenting two different studies on the economic impact of the UK's withdrawal from the European Union and a survey of about 250 respondents, mainly from LRAs and chambers of commerce. It was clear from the workshop that there are many challenges, and certainly negative effects to be expected from the UK's withdrawal from the EU in multiple fields (economic, social, etc.). But at the same time, it emerged from the discussion that some opportunities might arise for some regions and sectors.

The experts agreed that the uncertainty surrounding the nature of the future EU27-UK relationship complicated the adjustment processes that many EU regions were undergoing. A year ahead of the scheduled departure of the UK from the EU, there is not even a rough idea about the nature/conditions of the UK's access to the Single Market, their membership of the Customs Union, if any, or what will happen in relation to the thorny matter of access to financial services post-Brexit.

Both studies¹⁵ that served as input to the discussion indicate that the economic and social effects/consequences of a UK withdrawal from the EU will most likely be asymmetric not only across different sectors of the economy, but also across regions and countries, with some regions and Member States being more exposed due to the nature and the scale of their trade linkages with the UK and again with this exposure varying from one sector to another for any single region.

Should the UK decide to leave the Customs Union, the effects for the EU27 (and especially for those regions that are more exposed to trade with the UK) will be high, since customs formalities equate to a vast increase in paperwork, human resources and physical space requirements at ports and airports. Transaction costs of getting goods across the border might increase as a result of customs procedures.

However, even as a disruptor of established patterns, Brexit can, if properly managed, open gateways for innovation and development in some parts of the EU27. Two main factors account for this: regions and companies will try to adapt to the new conditions, and seize opportunities to take over from British suppliers within the Single Market; and human and financial resources, some co-funded by the EU's budget, that have been channelled towards R&D in the UK could be re-directed to EU27 businesses and universities. It is however unlikely that positive effects would exceed the negative consequences, certainly in the short/medium run, but also in the long run.

There remain a series of imponderables to which there are currently no obvious answers in sight, including: the duration of the transition period; the time needed to negotiate and agree on a deal

¹⁵ Namely:

- Chen W, Los B, McCann P, Ortega-Argilés R, Thissen M, van Oort F. The continental divide? Economic exposure to Brexit in regions and countries on both sides of The Channel. *Pap Reg Sci*. 2018;97:25–54. <https://doi.org/10.1111/pirs.12334>.
- Levarlet F, Seri P, Hrelja D, Lorgeoux E (t33); contributions from Lür C (Spatial Foresight) and Derszniak-Noirjean M (ÖIR). Assessing the impact of the UK's withdrawal from the EU on regions and cities in EU27. *European Committee of the Regions*, Specific Contract 7298, implementing framework contract n° CDR/DE/16/2015/1.

governing the future EU27-UK relationship; and the new processes and new systems that will underpin this deal. Consequently, it would be unwise to try to state conclusively what the impact on any given region would be.

7.2 Possible consequences for EU27 regions

In a **context of such uncertainty**, what we can project as a possible scenario is that if no deal were reached between the UK and EU27 on their future relationship, this would equate to the UK falling back on WTO rules. **In this scenario, some tentative conclusions could be drawn:**

1. The benefits of unfettered free trade, such as exists within the Single Market, trickle down to members of the European Union as a whole. Accordingly, any move away from our open markets or any reduction in the size of this space of economic freedom will, overall, mean a reduction in the prosperity currently enjoyed by the 500 million citizens of the EU. Many EU27 regions would bear a considerably higher adjustment burden than others, certainly with immediate effect, with the scale of the actual adjustments and impact depending on the weight that the trade linkages of any given region with the UK have in the respective regional economy, and also on the degree of diversification of trade in the given region.
2. It can be expected that regional competitiveness would have a bearing on the magnitude and time period of trade adjustments, since it plays a key role in resource reallocation, and greater diversity of activities tends to shelter regions from adverse adjustment costs caused by changes in trade patterns. In this context, the **most developed and richer regions, with the most dynamic economies**, could in time secure important gains, taking over the UK's role in the EU economy in sectors such as ICT or financial services (e.g. possibly regions in the Netherlands, central and southern Germany, Paris).
3. Regions with **less dynamic economies, that are less diversified and are dependent on low added-value economic activities**, could face greater adjustment costs than other, richer and more exposed regions. This is especially true for regions situated close to the UK. Exposure to trade with the UK, coupled with a low added-value economy, could constitute a major risk factor.
4. With fewer resources available for identifying the changes needed and devising mitigating actions, **SMEs will find it more difficult to cope with the new context**. Larger companies, on the contrary, accustomed to operating in multiple jurisdictions, are generally likely to be less impacted by the UK's withdrawal from the EU. Nevertheless, and as in the case of the regions, the impact in each case very much depends on the actual links (suppliers, clients) each company has with the UK.
5. When it comes to the impact resulting from a potential reduction in the total EU budget and in **European funding** for Cohesion Policy and the Common Agricultural Policy, it could be expected that poorer regions, net recipients of such funding (e.g. many regions in southern and eastern Europe) would be adversely affected and thus bear a higher burden of adjustment. However, further research should be done on the impact of the UK's withdrawal on the eligibility of regions under Cohesion Policy rules, since the UK's departure will lower EU GDP per head and consequently trigger changes in terms of eligibility/status for some EU27

regions (less developed regions, transition regions, and more developed regions) by virtue of the statistical effect.

6. The **millions of EU27 citizens who live in the UK and the one million UK citizens** living in EU27 countries are also a factor to be taken into consideration. Though it seems at this stage that an agreement between the two parties will be possible, any further uncertainty could lead to migratory movements with a major impact in certain regions, especially in Poland, Latvia and Lithuania. Similarly, the French Atlantic regions and Spanish Mediterranean regions would be adversely affected should British citizens lose their right to live in the EU or at least the right to use public services (such as the healthcare system).
7. Lastly, viewed from any angle, it is **Ireland that will be the country most affected**, irrespective of region. But while Dublin and the southern Irish regions might suffer economically, the **border counties** stand to be affected like no other with, far beyond the economic effects, the potential return of the conflict that affected Northern Ireland particularly but also the Republic of Ireland.

7.3 Future developments concerning the UK's withdrawal from the EU

Looking beyond the mapping of the exposure in terms of economic/trade linkages between EU27 and UK regions, which depicts a static view of the current situation, the dynamic reaction that Brexit has triggered in many EU regions and companies should be highlighted. Regions, cities, chambers of commerce and associations representing regions have taken many initiatives. For example:

- Some regions are looking into how to build bridges with British businesses as of now, in order to help ensure a smooth transition and maintain dialogue, and thereby understand the challenges on both sides. Others are setting up information desks so as to raise awareness among their businesses, including SMEs, about the challenges and opportunities triggered by Brexit.
- The majority of regions have not, to date, succeeded in properly assessing the possible impact of Brexit, given in particular the uncertainty surrounding the negotiations and the future relationship. Economic actors in such regions are mostly in that position or are reluctant to undertake an impact assessment since they do not know the conditions under which the UK's withdrawal will actually take place. This lack of analysis of the impact of Brexit in many regions and the absence of data on the impact inevitably restricts the scope to prepare effectively and take mitigating measures and highlights the need to further develop territorial impact assessments on the topic.
- Some of them are, nevertheless, considering possible economic opportunities which could arise from Brexit and how any trade obstacles can be overcome. They are also researching how to attract investors, since the UK's withdrawal from the EU is likely to result in some diversion of FDI towards the EU27 – especially in case of a disorderly withdrawal.

Some **preliminary policy recommendations** are set out below:

- Uncertainty could prove more dangerous than any of the possible options/scenarios for a potential deal. **Speeding up Brexit negotiations** and creating planning certainty is consequently an important recommendation for national and European political actors.

- The possibility of allowing **greater flexibility in State aid rules** so that national governments and LRAs can help those businesses that are more seriously affected by Brexit.
- **At regional and inter-regional level:** economic diplomacy and inter-regional cooperation and benchmarking can help minimise negative effects. LRAs can establish alliances of regions facing similar problems, sharing information and pooling resources to assess how to support their economic actors¹⁶. The experts participating in the TIA workshop also agreed on the need for sharing and producing more specific and detailed local/regional impact studies as well as looking at the linkages across and between sectors/activities.
- **At intra-regional level:** some LRAs have established information desks, newsletters and other communication tools to share information concerning Brexit within their communities. It is expected that awareness raising and sharing of information will help businesses, including SMEs, to be better prepared to face structural and economic adjustments.
- **Smaller businesses should receive support to help them ensure they understand and are prepared for Brexit**, particularly in those regions that appear to be most exposed to a negative economic impact.
- **Regions are encouraged to conduct assessments of the economic impact of Brexit.** Although this remains an inexact science given the uncertainty about the terms of post-Brexit EU27/UK economic relations, such assessments can help guide regions in preparing for the future. Regions should also work with key players in their regions (including companies) to draw up new development strategies and action plans to react to the new conditions, but also to react with dynamism to the uncertainty.

¹⁶ The CPMR, for instance, is already working in this way. They have three Brexit Task Forces – one for the Atlantic Arc, one for the North Sea and one for the Channel. They also adopted the Cardiff Declaration in October 2017 – ahead of Brexit Conference hosted by the Welsh Government in Cardiff on 16 November 2017.