

The consequences of Brexit for Spain

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Theme

Spain has good reason to be relieved that the UK and EU struck a post-Brexit free-trade deal, given the importance of its economic relation with Britain.

Summary

The Spain-UK relation is significant in terms of trade, direct investment, tourism, the Erasmus programme, fisheries and Britons living in Spain, by far the largest number of British expats in any European country. The UK's withdrawal agreement from the EU and the post-Brexit free-trade deal will affect these areas to varying degrees.

Analysis

Overview

There was an almost audible sigh of relief in the Spanish government when the UK and the EU agreed a deal that shapes how the two sides will trade as of the UK's exit from the bloc at the end of 2020. As a result, the UK avoided leaving the EU's Single Market and Customs Union under World Trade Organisation (WTO) rules, which would have meant immediate tariffs and quotas and been particularly bad for Spain. Trade now, however, involves significant new barriers and costs in the form of extra paperwork and checks, and pending issues for trade of services, all of which will entail an eternity of negotiations.

The negotiations went down to the wire. For UK Prime Minister Boris Johnson and Brexiteers in general the key issue all along was sovereignty and not trade: if free trade had been the objective, Britain would have stayed in the Single Market and the Customs Union. Johnson's claim that the deal created a 'giant free-trade zone' was ridiculous, as there was one already there, and services, nearly half the UK's exports, are hardly mentioned in the agreement. Arancha González Laya, Spain's Foreign Minister and a trade expert, put it well when she told Sky TV, 'A trade deal is not made to assert one's independence but to manage our interdependence'. Johnson seemed to have finally accepted this, in the knowledge that no trade deal would have been economically more damaging for the UK than for the EU. The UK's departure from the bloc, however, is also bad for the EU's economic superpower status, as Britain's GDP is equivalent to 18 of the EU's 27 (now 26) countries.

Figure 1 summarises the consequences for the UK of leaving the EU and the benefits of the trade and cooperation agreement, while Figure 2 provides an overview of the relative importance of the UK for Spain compared to Italy, France and Germany.

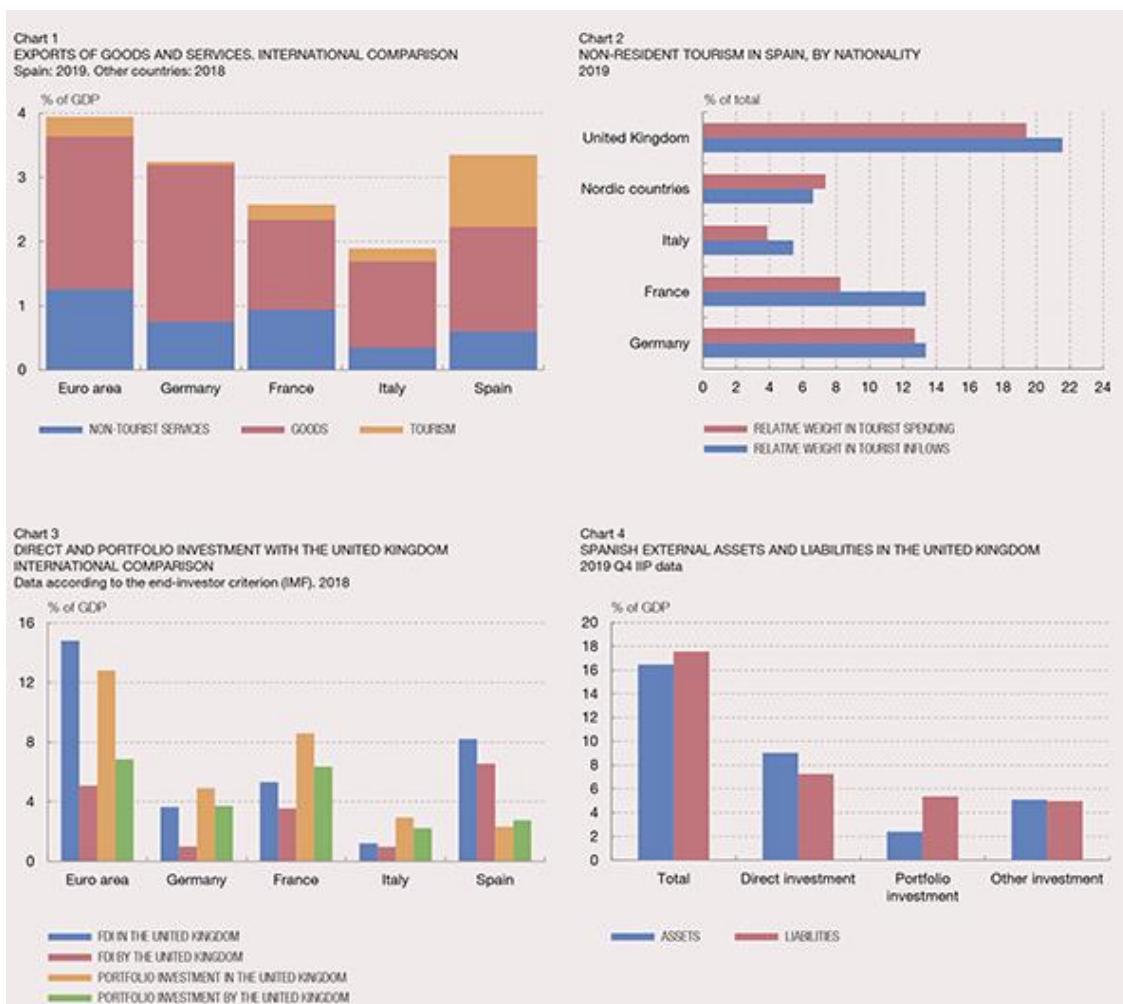
Figure 1. EU-UK relations: big changes compared to benefits of EU membership

	EU-UK Trade and Cooperation Agreement	EU Member State
Free movement of people		
Removal of border checks	No	Yes
Pet passports	No	Yes
Visa-free travel (90 days in 180-day period)	Yes	Yes
Visa-free travel (beyond 90 days)	No	Yes
Right to work, study, live in another EU country	0	Yes
Removal of roaming charges	No	Yes
Trade in goods		
Frictionless trade	No	Yes
Zero tariffs or quotas	Yes	Yes
Zero customs formalities	0	Yes
Zero sanitary and phytosanitary (SPS) checks	No	Yes
Zero rules of origin procedures	0	Yes
Fisheries agreement	0	Yes
Trade in services		
Financial services passport	No	Yes
Easy recognition of professional qualifications	No	Yes
Air transport		
Single aviation area, full freedoms	No	Yes
Bilateral 5 th freedoms for extra-EU air cargo	0	Yes
Road transport		
Single internal transport market for hauliers	No	Yes
Cross-trade operations	0	Yes
Energy		
Single internal energy market	No	Yes
Energy trading platforms	0	Yes
EU programmes		
Access to Erasmus	No	Yes
Access to Next Generation EU, SURE	No	Yes
Galileo encrypted military signal	No	Yes
Access to Horizon Europe	0	Yes

Note: 0 = specific conditions related to EU-UK Trade and Cooperation Agreement.

Source: European Commission.

Figure 2. The Spanish economy's exposure to the UK



Sources: Eurostat, IMF, INE and Banco de España.

The Spain-UK trade relation

Two-way trade of goods between Spain and the UK rose from €12.3 billion in 1995 to €31.6 billion in 2019. Spain has enjoyed a trade surplus with the UK almost every year (close to €8 billion in 2019) since 2002 (see Figure 3). The UK took 6.8% of Spain's merchandise exports (€19.7 billion) last year, making it Spain's fifth largest trading partner (in 2015, it ranked fourth), and the UK supplied 3.7% of imports. Including exports of services, the value represented 3.4% of GDP.

Spain's trade exposure is lower than that of the euro zone as a whole but higher than that of Germany, France and Italy, because of Spanish tourism exports, which accounted for close to 1.2% of GDP. Notable among exports of non-tourist services are telecoms and financial services, reflecting the presence in the UK of Spanish multinationals (eg, the banks Santander and Sabadell and Movistar).

Figure 3. Spain's exports to the UK and imports from the UK, 1995-2019 (€ billion)

	1995	2000	2005	2010	2016	2019
Exports	5.49	10.19	13.02	11.54	19.15	19.72
Imports	6.86	12.05	13.23	10.94	11.18	11.91
Balance	-1.37	-1.86	-0.21	+0.60	+7.97	+7.81

Source: Economy Ministry.

Spain exports around 350,000 vehicles to Britain every year (14% of all car exports and worth more than €4.5 billion), more than double the number (130,000) that are imported from the UK. Food exports are also considerable.

Direct investment

The UK has the second-largest stock of foreign direct investment (FDI) in Spain after the US (16.3% of the total in 2018 at €61.9 billion) and Spain's stock in the UK is the 10th largest and the sixth among EU countries at £50 billion (see Figures 4 and 5). UK companies employ more than 142,000 people in Spain (see Figure 6) and Spanish companies in the UK 96,000.

**Figure 4. Main investor countries in Spain, stock of direct investment, 2009-18 (€ billion)
 (1)**

2018 ranking	2009	2012	2015	2018
US	43.27	48.14	54.99	75.72
UK	40.38	32.61	43.83	61.90
France	40.66	37.42	41.18	54.45
Italy	48.53	47.96	41.18	39.60
Germany	34.36	28.81	27.58	41.35

(1) Excluding Special Purpose Entities that take advantage of favourable fiscal conditions and channel capital through them towards a third country company belonging to the same enterprise group.

Source: Registry of Foreign Investments.

Figure 5. Main EU investor countries in the UK, stock of direct investment (£ billion)

2019 ranking	2010	2013	2016	2019
1. Netherlands	117.57	147.58	211.86	167.22
2. Luxembourg	60.81	71.45	115.27	134.30
3. Belgium	7.13	24.84	25.65	116.38
4. Germany	46.75	49.29	61.01	89.66
5. France	61.21	68.77	66.96	71.29
6. Spain	32.99	49.47	30.50	50.00

Source: Office of National Statistics.

Figure 6. Main investor countries in Spain, stock of employment, 2009-18 (1)

2018 ranking	2009	2012	2015	2018
France	316,450	260,686	274,649	329,166
Germany	161,136	163,913	163,352	207,859
US	160,429	152,509	163,768	204,334
UK	120,322	119,540	111,303	142,474
Netherlands	118,988	71,403	87,459	107,008

(1) Excluding Special Purpose Entities that take advantage of favourable fiscal conditions and channel capital through them towards a third country company belonging to the same enterprise group.

Source: Registry of Foreign Investments.

In GDP terms, FDI between Spain and the UK is much stronger than that of Germany, France and Italy with the British economy, according to a report by the Bank of Spain. Spain's FDI in the UK accounted for 9% of Spain's GDP in 2018 and the UK's in Spain, mainly in the energy, telecoms and tobacco sectors, 6.5%. Britons are the main foreign buyers of housing in Spain (14% of purchases made by non-residents in 2019). Purchases since the 2016 Brexit referendum have slowed down because of uncertainty.

The rules for UK companies investing in Spain changed last year, though not because of Britain's exit from the EU. Investments by EU companies in unlisted Spanish companies in strategic sectors only require authorisation if they are worth more than €500 million, while for non-EU companies the amount beyond which authorisation is required is €1 million. And as of 30 June 2021, EU investment in strategic sectors will be practically free, while that of non-EU countries will require authorisation. The strategic sectors are physical and virtual infrastructure regarded as critical, as well as buildings needed for such infrastructure, critical technologies and dual-use products (ie, those that can be used for civilian and military applications), and key inputs and sectors with access to sensitive information.

Spanish companies in the UK have had more than four years to prepare for the UK's exit from the EU, although not until the last moment was a trade deal agreed. The UK's departure from the EU does not mean major changes to the way they operate in Britain, but 'passporting rights' that allow British-based banks full access to EU customers went out the window with the decision to leave the single market.

Two Spanish banks are part of the UK banking system. Santander, one of the euro zone's largest banks by market capitalisation and a global systemically important bank, bought Abbey in 2004, and in 2008 two much smaller banks, Bradford & Bingley and Alliance & Leicester. Its UK bank, the third-largest mortgage lender, plays a key role in Santander's strategy, generating 13% of ordinary attributable profit in 2019 (2020 was an abnormal year because of the COVID-19 pandemic). The much smaller Banco Sabadell took over TSB and its network of 614 branches in 2015.

Telefónica began operating in Britain in 2006 after buying O2, which operates in the UK, Ireland and Germany, Iberdrola, through its subsidiary ScottishPower Renewables, is the largest wind-energy producer in the UK and infrastructure and construction companies such as Ferrovial and FCC have significant interests. Other companies with an important presence include the Meliá and NH hotel chains and Inditex, the world's biggest fashion retailer, which has 103 stores across the UK, mainly under the Zara brand.

Fisheries

The issue of fishing rights between the EU and the UK was one of the main obstacles to the trade deal and threatened to sink the negotiations, although the fishing industry generates a fraction of Britain's GDP (0.5%).

The Spanish fishing fleet is one of if not the biggest in the EU and the UK is an important market, particularly the North Sea, but Spain is not as dependent as Danish, Dutch and French fishing vessels are on fish caught in UK waters.

Under the deal EU countries will see a reduction in catches, as 25% of EU boats' fishing rights in UK waters will be transferred to the UK fishing fleet over a period of five-and-a-half years. The UK will have the right to exclude EU boats after 2026, but the EU could respond with tariffs on exports of British fish to the EU.

Citizens and tourism

Around 18 million British tourists come to Spain every year, just over one-fifth of the 83.7 million total in 2019 (2020 was an *annus horribilis* because of the pandemic), and 300,000 Britons are officially registered as living in the country (76,000 in 1998) at the latest count, the largest group of British ex-pats in Europe and the third largest number of foreign residents in Spain after Moroccans and Rumanians (see Figures 7 and 8). The real number of Britons in Spain including those who are not registered and those that have property and spend part of the year in the country is put much higher, at 800,000.

Figure 7. International tourists coming to Spain by country of residence, 2019 (million)

	Million
UK	18.07
Germany	11.17
France	11.15
Nordic countries (1)	5.54
Italy	4.54
Netherlands	3.70
US	3.33

(1) Denmark, Finland, Sweden, Norway and Iceland.

Source: Tourism Ministry.

Figure 8. Foreign residents by nationality, top 10 countries

	1 January 2020
Morocco	761,122
Romania	666,936
UK	300,987
Italy	268,151
Colombia	261,537
China	197,390
Venezuela	187,268
Germany	139,250
Ecuador	133,084
Bulgaria	122,946
Total of all countries	5,235,375

Source: INE.

Roughly the same proportion of Spaniards holiday in the UK as Britons in Spain, but the number is far fewer (8.9 million of the 40.9 million in 2019), and there are fewer Spaniards resident in the UK (at 30 September 2020, 237,500 Spaniards already working and living in the UK had been given settled or pre-settled status under the new rules).

Spain is looking more kindly on its British community than the UK on its Spanish one. Britons already living and working in Spain, unlike Spaniards in the UK, do not need to prove their status. While EU citizens in the UK have to apply to the EU Settlement Scheme in order to continue living in Britain after 30 June 2021, UK citizens in Spain with either a residency card or the equivalent green certificate (issued before the end of 2020) do not have to do anything as these documents remain valid, though they can exchange whichever one they have for the post-Brexit third country ID (known as TIE).

Tourism is an area where people will feel some of the most obvious consequences of the UK's departure from the EU, although COVID-19 restrictions will mask these changes initially. The Spanish government is keen to do all it can to encourage Britons to continue holidaying and retiring fully or partly in Spain. The revenue from UK tourists plays an important role in Spain's balance of payments, and in some coastal areas residents' spending is a vital part of local economies in the off tourism season.

Precise details of new reciprocal health arrangements are yet to be announced. This is an important issue for UK tourists in Spain, previously automatically covered by the Spanish health system under EU rules. The European Health Insurance Card (EHIC) is to be slowly replaced by the UK Global Health Insurance Card (GHIC). The UK government, however, has advised travellers to purchase travel insurance to cover them should they need emergency medical assistance while they are travelling within the EU. If the GHIC is relatively similar to the EHIC, the impact on medical assistance for UK travellers might go more or less unchanged.

As a result of Brexit, Britons are limited to a maximum of 90 days travel at a time without a visa within a six-month period, something that will particularly affect retirees. Border authorities have the right to demand proof of their plans, a return ticket, and that they have sufficient money for their stay.

Doing business is also more complicated as the automatic right to work in the EU no longer exists. Professional services providers, such as doctors, engineers and accountants, will require visas, as the trade deal failed to obtain pan-EU mutual recognition of professional qualifications.

Under the new point-system, those wishing to come to Britain to work must have a job offer with a salary threshold of €30,600 (£25,600). This will have a big impact on the hospitality sector, agriculture and the public health system. Around 6,000 of the 65,000 EU workers in health are Spanish nurses and doctors.

Eramus

The UK's decision to pull out of the EU student exchange programme established in 1987 known as Erasmus is a hard blow for Spaniards. Almost 4,500 Spanish students, the third largest number, did Erasmus in the UK in 2018/19 and 4,300 Britons, the fourth highest number, in Spain (see Figure 9).

Figure 9. Ranking of top five receiving countries of Erasmus students for Spain and United Kingdom 2018/2019

	Rank	Spain Number of students	Rank	UK Number of students
Italy	1	12,202	4	3,330
France	2	8,809	1	7,155
Germany	3	6,858	2	4,866
UK	4	4,301	-	-
Netherlands	5	2,832	5	2,356
Spain	-	-	3	4,480

Source: European Commission.

Boris Johnson had guaranteed in January 2020 that Erasmus was not at risk, but decided to replace it with the Alan Turing programme, named after the English mathematician. For tens of thousands of Spaniards, Erasmus in the UK was a vital experience, enabling them to broaden their horizons and improve their English. Nicola Sturgeon, Scotland's First Minister, called the decision 'cultural vandalism'. Guy Verhofstadt, a Belgian MEP and former Prime Minister, made an impassioned appeal in the European Parliament for the EU to unilaterally extend Erasmus to UK students. 'They love Europe, they all want the UK back into the European family. Let's not make them the victims of a Brexit they didn't choose'.

British universities, six of which are among the world's Top 50, according to the Shanghai Ranking, are popular among Spanish students over and above Erasmus. The number studying for degrees rose from 7,040 in 2014/2015 to 10,330 in 2018/2019 and 13,685 including students on long-term exchange programmes such as Erasmus (see Figure 10).

Figure 10. Top EU countries of domicile for higher education enrolments in UK (excluding the UK)

	2014/2015	2018/2019
Germany	13,675	13,475
France	11,965	13,675
Italy	10,525	13,965
Spain	7,040	10,330
Poland	5,250	8,380

Source: <https://www.hesa.ac.uk/>.

Gibraltar

Brexit will create a closer relation between the disputed British Overseas Territory of Gibraltar, ceded to the UK under the 1713 Treaty of Utrecht, and Spain, which claims sovereignty. This is inevitable as 96% of Gibraltarians voted to remain in the EU in the 2016 referendum.

The UK and Spanish governments reached an agreement in principle on free movement between Spain and the Rock less than a day before the deadline expired on 31 December, narrowly avoiding the creation of the only hard border because of Brexit.

Without the agreement Gibraltar would have become the external border of the EU, complicating life for the 15,000 people who cross it every day to work, most of them going from Spain to the Rock.

Unemployment in the Campo de Gibraltar frontier area is around 40% compared with almost zero in Gibraltar. Mayors of the eight towns in this area said the lack of a deal would bring 'dire economic, social and political consequences'.

Gibraltar was not covered by the Brexit trade deal between the EU and the UK. The agreement between London and Madrid paves the way for a separate treaty between the UK and the EU seeking 'maximised unrestricted mobility'. This would make Gibraltar part of the Schengen free-movement areas and convert Gibraltar's airport and port into the EU frontier, not the land border between the two sides.

The issue of who controls passage through the airport and port is a sensitive one because of the sovereignty issue. Neither side has budged. However, Spain, as Gibraltar's closest Schengen member state, will be responsible for ensuring Schengen checks are applied.

Chief Minister Fabian Picardo said Gibraltar would not accept during the agreement's four-year initial period Spanish law enforcement officials wearing an armband as the Frontex force. The Schengen Information System would provide information remotely to Gibraltar's border agents.

After that period Spain and the UK will consult on how they should move forward. If another system acceptable to all sides cannot be agreed, the UK and Gibraltar have a veto on Spanish officials carrying out the checks and could terminate the agreement, raising the prospect of a hard border. Spain's ultimate ambition is to remove the border fence.

In a separate move, the Spanish government allowed Gibraltarians to continue to hold Spanish public sector jobs, work in professions that require EU residency and study in Spanish universities.

Conclusions

If all goes well, the UK's importance for the Spanish economy should not be diminished significantly and with pragmatism on both sides it could continue to flourish.