

## Research for PECH Committee – Workshop on impacts of the EU-UK Trade and Cooperation Agreement on fisheries and aquaculture in the EU - Part II: Trade aspects



Following the provisional application of the EU-UK Trade and Cooperation Agreement (TCA) as of 1 January and entry into force on 1 May 2021, it is a very timely moment to investigate its potential trade and economic impacts both on the EU and the UK. As several trade and cooperation aspects such as the agreements on the total allowable catches (TACs) came into force only recently, ex-ante approaches are

needed to understand the range of the potential trade and economic impacts of the TCA. This study aims to contribute to this by simulating an impact of the TCA in various scenarios that explore the possible combinations of trade and TACs measures.

The present document is the executive summary of the study for Workshop on impacts of the EU-UK Trade and Cooperation Agreement on fisheries and aquaculture in the EU - Part II: Trade aspects. The full study, which is available in English can be downloaded at: <https://bit.ly/3nCSf4A>

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## Methodological approach and scenario design

To make a comprehensive impact analysis, the methodological approach needs to consider the interconnection of fisheries and aquaculture with other actors in the economy – producers, processors, consumers and traders, and capture their interactions in the context of an open economy, with possible implications for the non-EU markets. CGE (Computable General Equilibrium) models are appropriate tools to address these needs. This study applied a CGE model MAGNET (Modular Applied GeNeral Equilibrium Tool) to quantify the impact of the TCA on fish related sectors. The commodity and regional aggregation of MAGNET was built tailored to the needs of this study, i.e., to provide insights into the impacts on the markets of wild fisheries products, fish processing products and aquaculture products for the most important fish producing EU Member States (selection of 9 regions), the UK and most relevant trading partners such as Iceland and Norway.

## Impacts of the TCA on trade in Fish and Aquaculture Products (FAPs)

The terms of the new relationship established in the TCA bring negative impacts on aggregate trade balance in FAPs both for the UK and the EU (about -1% in the EU and -20% in the UK). Whereas the UK trade balance declines in all FAPs, in the EU, trade in fish processing products is the main driver of the trade balance loss. Due to the imposition of trade barriers, the UK's increased TACs do not create advantage on the export markets. On the other hand, EU Member States which fish outside of the UK Exclusive Economic Zone (EEZ) such as Spain are expected to export more (+0.6%) due to the increased competitiveness on the EU Single Market. Third countries benefit from Brexit by taking over the respective trading positions of the EU and the UK. Asian and American countries take advantage in processed fish trade whilst Norway, Iceland, the rest of Europe and Russia compete more in the sector of fisheries and aquaculture. Despite the trade reorientation to the other territories, total value of trade declines, leading to a trade diversion effect of the TCA.

## Impacts of the TCA on production of FAPs

The TCA is expected to cause a reduction in production volume of FAPs (-0.7% for the EU and -3% for the UK). The production impacts of the TCA on the EU are dominated by fish processing and much less by wild fisheries, where the reduction of TACs is moderate on the aggregate level and there are possibilities to adjust by shifting fish landings to other EU countries such as Spain. On the aggregate level, the decline of fish processing production is rather moderate (-2.5%), but zooming into the EU Member State level, more notable shocks are noticed, with declines of production volume up to 11% in Ireland, 6% in Sweden and 5% in the Netherlands. Producer prices of FAPs in the EU remain almost unaffected by the TCA (+0.5%) except for Ireland, which will see slightly stronger price inflation (1%).

Regarding the UK, the effects on production volume vary - positive effects are expected for wild fisheries due to the increased TACs (+3%), but negative effects on the aquaculture sector (-8%) due to the increased trade costs. The excess supply of landed fish results in a drop of domestic producer prices of wild fisheries (-3.5%) which takes away all gains for the wild fisheries producers in terms of value of landed fish.

Looking separately at the TCA measures shows that increased trade costs have more profound impacts than the TACs measures. For the EU, production value of FAPs is expected to decline by about 40 million USD with only TACs in place and by about 130 million USD including also the non-

tariff measures (NTMs) (-140 million USD for fish processing). As for the UK, the gains in production value from increased TACS (about 40 million USD) are overruled by losses due to the NTMs (over 200 million USD).

## Impacts of the TCA on consumers of FAPs

With respect to the TCA impacts on consumers, a moderate increase in consumer prices and a reduction in consumption of FAPs across all countries can be expected (-0.6% in the EU and -0.8% in the UK). On the aggregate EU level, the impacts on consumer prices are quite limited (about 0.6%), although some EU Member States may see more pronounced impacts, particularly Ireland with price increases of 5%, and the Netherlands and France with price increases of 1.5%. In the UK changes in consumer prices are less than +1%. EU consumers can more easily substitute fish from the UK by fish from the EU, as for the UK, the substitution possibility is more limited. As for the fish consumed in food services, negative impacts are expected, mainly for the UK, driven by a decline of purchasing power of households.

## Economy-wide impacts of the TCA

The macroeconomic and Sustainable Development Goals (SDG) perspective shows some trade-offs in the impacts of the TCA on both parties. In general, the UK economy is notably more affected by the TCA (4% decline of GDP vs 1% for the EU). However, the UK's primary agricultural sector may benefit from increased production due to a higher reliance on domestic resources.

## Conclusions and recommendations

The TCA is a lose-lose situation to all affected parties and notable welfare losses can be expected due to increased protectionism and misallocation of resources. Parties outside of the EU and the UK, like Norway and Iceland, are expected to increase their trade in FAPs with both the UK and the EU.

The overall impacts of the TCA are larger for the UK than the EU, with Ireland being a notable exception. For the EU the main impact is not on the wild fisheries but on the fish processing sector, due to the increased trade costs. The following set of recommendations are proposed:

- The impact on the fish processing sector could be reduced by a removal of the non-necessary NTMs trade cost burdens by for instance providing a mutual recognition of the origin and quality of the fisheries products.
- As the fish processing sector is most negatively impacted, specific measures to support the EU fish processing industry could be considered. For instance, the Brexit Adjustment Reserve ([Regulation \(EU\) 2021/1755](#) of the European Parliament and of the Council of 6 October 2021) could also incorporate measures to support fish processing businesses. It may also be worthwhile to further analyse the impact of re-exporting tariffs on fish related products imported from non-EU countries and exported to the UK.
- On the aggregated sector level the impact of the TCA on wild fisheries is relatively small (-40 million USD), particularly when compared to the impact on fish processing (-170 million USD). However, this does not mean that individual companies are not impacted. It would be worthwhile to carry out complementary case studies to assess company-level impact of the reduced TACs.

## Further information

This executive summary is available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: : <https://bit.ly/3nCSf4A>

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