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1. Introduction.

Following the recent referendum on UK membership of the EU, in which the UK voted to leave the EU (Brexit), this report is an initial review of the impacts of Brexit for the UK seafood industry (primary production, trade, manufacture, UK consumer).

The Seafish mission is to secure a profitable, sustainable, and socially responsible future for the UK seafood industry. An important underlying function for Seafish in achieving this mission is to help protect the industry in the face of natural and man-made risks and challenges.

Risk developments in the macro trade landscape can present longer-term, strategic challenges for the industry. Reflecting on these developments in 2016, Seafish and industry stakeholders prioritised Brexit and issued the following requirement “*What are the impacts of Brexit on the UK seafood industry and what can be done to ensure the industry thrives?*”

The complexity of our industry means the implications differ for operators depending on their sector, markets and such like. Those operators with day-to-day interaction with EU institutions and continental operators will encounter direct impacts. Other operators may be impacted more indirectly. Seafish activity, currently delivering the work programmes set out in the 2015-18 corporate plan, will also have to respond to this new landscape. This includes adjusting existing work programmes and in corporate planning for Seafish activity post 2018.

Our approach to this new situation is simple, pragmatic and non-partisan. We shall work with industry and all relevant stakeholders to understand the new landscape, the implications/opportunities/threats for seafood and options for industry and Seafish response.

This initial paper seeks to provide a high level overview of the Brexit landscape. Following this review, and as things become clearer, our subsequent work will identify the major industry impacts arising from key Brexit developments, setting out potential areas of response by industry and Seafish.

This document combines data, opinions and conjecture and is a position paper at the time of press. It is important to bear in mind that evidence today might suggest trends that turn out to be very different in the longer term.

2. Major characteristics of UK seafood and interfaces with the EU.

2.1 UK seafood

The UK seafood industry, being reliant on wild capture and aquaculture produced raw material, is diverse, complex and dynamic. The seafood industry is considered here to operate as many subsystems (regional, sectoral), of varying degrees of interdependence, nested within one overarching global system.

In the global context, from a UK perspective, there are at least two major seafood systems with distinct characteristics. These are a *domestic system* (defined as a system reliant on domestically sourced material - caught from stocks in North Atlantic/UK waters and landed in the UK, or farmed in the UK) and an *international system* (defined as a system reliant on internationally sourced material - caught from stocks in the North Atlantic and elsewhere landed outside the UK, or farmed outside the UK).

From a UK perspective, seafood material originating in the UK is generally exported for overseas consumption, whilst UK seafood consumption is largely reliant on imported material. The UK consumer maintains a robust preference for salmonids (farmed salmon), whitefish (cod, haddock and Alaska pollock), pelagics (tunas) and shellfish (cold-water prawn and farmed warm-water prawn). Meanwhile, UK landings volumes are dominated by mackerel and herring (pelagics), Nephrops (shellfish) and cod and haddock (whitefish).

2.2 Interfaces with the EU

The interfaces between the UK and the EU are numerous and overlapping. These derive from the four founding principles - free movement of goods, capital, services, and people – set out in the Treaty of Rome (establishing the European Economic Community), but have broadened as competencies at the European level have expanded with the Treaty of Maastricht (establishing the European Community) and Treaty of Lisbon (establishing the European Union). UK seafood is no exception to this, although certain interfaces loom larger than others. Important interfaces include:

2.2.1. Marine resource

The waters surrounding the UK form part of a common EU resource, with shared EU governance. This includes fisheries and other policy arrangements such as the Common Fisheries Policy (CFP) and various environmental directives (e.g. Birds and Habitats Directives, Water Framework Directive, Marine Strategy Framework Directive). In EU fisheries, the CFP establishes the rules for conserving fish stocks and fleet management as a means of achieving high yielding fisheries (maximum sustainable yield) whilst

reducing wasteful practices (including discarded fish). The rules include input controls (access to fisheries, fishing effort and technical measures) and output controls (total allowable catch and quotas). Recent developments under the CFP have seen a shift to multi-annual management plans and greater control at national and regional levels. The CFP also seeks to develop EU aquaculture as a fast growing food sector, to support the governance of fisheries and third country agreements on capture and trade in fish from outside the EU (see below). As such the EU has a direct bearing on UK seafood operators involved in fisheries management, production, capture and trade.

2.2.2. Seafood markets and trade

When the UK joined the European Economic Community, emphasis was placed on a common market, and this has subsequently evolved to become the EU single market, in which there are no tariffs on goods moving between Member States and common tariff on goods entering the EU. This interfaces with UK international and domestic seafood. The single market is of importance for seafood exporters as the most significant UK seafood export markets, by far, are in EU countries. With the requirement for short supply chains, these markets are particularly important for fresh products. For UK seafood imports from, and those exporting to, markets outside the EU the single market influences trade directly through the common external tariff (external trade relationships are governed by the Common Commercial Policy of the EU rather than independent policies of Member States). As such, the EU has a direct bearing on UK seafood operators in terms of trading and access to seafood customers.

2.2.3. Seafood regulations and standards

The EU has sought to establish a common regulatory framework and to develop common standards either through mutual recognition or harmonisation. The rationale for this is the reduction of non-tariff barriers to trade between, and to avoid multiple sets of standards and rules across, Member States. Non-tariff barriers refer to measures that can reduce imports, these include: anti-dumping actions (measures, such as an additional duty, that prevent goods being exported at prices below production cost), product standards (composition, packaging etc), consumer information (labelling, health claims), market protection (protected names) and support to domestic operators and export subsidies that inhibit equal access to the market by foreign operators. EU regulations with an important bearing on the seafood industry include the common organisation of the markets in fishery and aquaculture products, consumer information (food labelling), food traceability (including IUU - Illegal, Unreported and Unregulated fishing) and food safety (including a network of EU Reference Laboratories - an important resource for researching and understanding animal diseases). The EU has a direct bearing on UK seafood operators as all UK businesses must comply with all applicable EU Regulation and guidance whether trading inside or outside the EU single market.

2.2.4. Seafood operations (labour)

When the UK joined the European Economic Community, the free movement of persons between Member States was a key principle. This has subsequently evolved to become one of four 'fundamental freedoms' of the EU's Single Market, a central aspect of EU integration and core to the idea of EU 'citizenship'. The original focus on the free movement of workers has been extended such that EU Member State citizens and their families are entitled to move and reside anywhere in the EU; applying to job-seekers, the

self-employed, students and those that can support themselves (retired persons for example). In seafood, the free movement of workers has provided a welcome supply of employees, particularly in capture and seafood processing activities, where employment opportunities can be temporary, in comparatively low wage/skill occupations and in relatively remote locations. As such, the EU has a direct bearing on UK seafood operators in terms of access to labour.

2.2.5. Public funds

Alongside those provided by Member States, the EU provides public funds to support policy priorities. The structural and investment funds that support regional policy make up the largest share of the EU funds. Within these funds, the European Maritime and Fisheries Fund (EMFF) is an important source of co-funding for the seafood industry, although other sources are also important in indirect ways e.g. funding for research and innovation through the Horizon2020 programme.

Funding and support (grants, loans, tax breaks, financial assistance) from Member States is subject to the EU state aid framework. Part of the EU Competition Policy (a set of rules designed to ensure markets function properly and evenly across the EU), this framework prevents distortions to the level playing field that might be undermined by government subsidies, ensuring businesses across the EU can compete fairly. In practice this means there are tight limits on public spending, with the exception of EU approved/funded activities. In seafood, under current state aid rules, support can be given to companies for the production, processing and marketing of fisheries products. However, the maximum aid that can be given to any beneficiary is fairly small (limited to €30k over three years from all government sources). Support can exceed these figures when EU grant funding has been awarded for specific initiatives.

3. Brexit developments expected to impact on the industry.

The referendum result has generated considerable levels of uncertainty surrounding UK-EU relations. Much depends on where the UK (and the EU) goes from here.

3.1 Scope for change

We are entering a new Brexit landscape, where the scope for change remains broad. Pre-Brexit, a number of scenarios for a future UK-EU relationship could have played out with a range of implications for the country and the UK seafood industry (table 3.1).

UK position	UK-EU relationship	Example
Inside the EU	Fully integrated EU & market	Eurozone+/EU superstate
	Current model of membership with no EU tariffs/common external tariff	UK 'as is'
	Reformed EU/common market	Looser association of Member States
Outside the EU	European Economic Area model with tariff/quota free trade in most goods	e.g. Norway
	Bilateral model with preferential tariffs*	e.g. Swiss/Canada
	WTO model with partial tariffs	e.g. New Zealand
	Unilateral free trade model with no tariffs*	e.g. Hong Kong/Singapore

Whether specific changes (many of which have been heralded in the media and elsewhere) take place, or are actually feasible, depends on the UK-EU situation that is ultimately reached. Failing to acknowledge this can give rise to straw man arguments and spurious comparisons.

In order to put potential changes in context, we consider changes relating to two scenarios (see * in table 3.1) at either end of the range of claimed outcomes for leaving¹:

- **Shallow (or soft) Brexit:** a UK outside the EU with a low appetite for autonomy. UK/EU relations focus on a bilateral (Canada/Switzerland-type) relationship. In the near term, the emphasis is on the EU as the main market and protecting the existing UK economy. UK/EU negotiations are prolonged, with an extended period of uncertainty (around the level of early 1990s recession).
- **Deep (or hard) Brexit:** a UK outside the EU with a high appetite for autonomy. UK relations with the EU and others are based on unilateral free trade (under WTO rules). In the near term, the emphasis is on global markets, and the focus is on inbound and outbound trade, with the UK economy reoriented to export driven growth. UK negotiations with EU and others are on a WTO basis and are relatively quick, with a short period of uncertainty.

We may have to reconsider or update scenarios as the situation develops. Following the referendum result, in which the UK voted to leave the EU (Brexit), there is speculation that the UK could still remain; this option is not considered in this review (but could be revisited as necessary).

3.2 The key dimensions and scope for change

We can already see some of the contours of how the Brexit landscape is likely to affect seafood. Key dimensions include: the general UK business climate; policies governing fisheries and fish production; trade tariffs; regulation and non-tariff barriers; access to labour; and public funds.

The scope for change under each dimension varies, as some aspects are influenced wholly by the UK, some by the EU, and some by international obligations.

3.2.1. UK business climate (in the next two years)

Under either scenario, the UK business climate in the next two years is reportedly expected to worsen. GDP is expected to fall and inflation is expected to increase. However, the drivers and longer term prospects differ depending on economic (and campaign) viewpoint advocated, the following is a brief summary of the alternative positions¹.

¹ The Shallow Brexit scenario is based on the central scenario made by the Remain campaign i.e. *Negotiated bilateral agreement* (See HM Treasury analysis: the long term economic impact of EU membership and the alternatives – HM Government. April 2016. p90). The Deep Brexit scenario is based on the scenario advocated by the Leave campaign i.e. *Free trade under WTO prices* (See The Economy after Brexit – Economists for Brexit. p5). Given the criticism levelled at each campaign, these descriptions should be treated with caution and considered to be indicative only.

Shallow Brexit

Under a prolonged period of uncertainty, UK consumption and investment would fall quickly, reducing output. The risks to employment and wealth, and falling value of sterling increasing inflation, would mean households reduce purchases and have reduced spending power. In the 2016-18 period, the UK would experience a recession (GDP -3.6% compared to the current remain situation); a fall in the Sterling exchange rate index (-12%); an inflation spike (+2.3 % in a year); an unemployment increase (+1.6% or 520,000); and a reduction in average real wages (-2.8%). Longer term the UK economy would be permanently weaker.

Deep Brexit

With a short period of uncertainty, UK economic output increases as costs fall (exports and imports would be traded at world prices, reduced regulatory burden, and falling consumer prices). Employment would be generated, consumer spending power would be higher (as managed immigration raises real wages) and exports would increase (through the lower value of sterling). Returns would fall in industries losing previously held protection in EU (agriculture and manufactures). In the 2016-18 period, the UK would experience a recession (GDP -0.4% compared to current remain situation); a fall in the Sterling exch. rate index; a rise in inflation (from 1.1 % to 2.8%); a slight fall in unemployment (from 800,000 to 700,000); and an average real wage increase (+3%). Longer term the structure of the economy would change and performance would strengthen.

3.2.2. Policies governing fisheries and fish production

With the UK being a signatory to a variety of international legal agreements concerning marine management and access, the fundamental challenges affecting fisheries management would largely remain. Examples include the 1965 London Convention (providing historic fishing rights in the six to 12 mile zone) and the UN Law of the Sea Convention (which requires a Nation State to conserve and manage marine resources, co-operate to conserve and manage specific stocks, and the trade-offs between conservation and fishing). Under either scenario there would therefore be a requirement for some kind of arrangement to support fisheries management, access, data collection and marine conservation.

Shallow Brexit

- **Management:** Outwith the CFP, some form of transboundary management would be required, eg. The UK and EU could manage the UK Exclusive Economic Zone (EEZ) in close co-operation, joint UK/EU monitoring of landings, agreements on catch limits, and regulation of the sector. The landing obligation for discarded fish would continue².
- **Access:** Reciprocal access of foreign vessels to EEZ and vice versa for UK vessels.
- **Data collection:** The UK and EU could be jointly responsible for research requirements, data collection, sharing and analysis.
- **Marine conservation:** The UK would not be obliged to comply with EU environmental legislation (e.g. Birds and Habitats Directives, Water Framework Directive and Marine

² As indicated by George Eustice MP, the UK Fisheries Minister, in his speech to the Shellfish Association of Great Britain Conference in May 2016.

Strategy Directive), but those exporting to the EU would have to comply (and would have reduced influence in shaping this legislation).

Deep Brexit

- **Management:** Although no longer governed by the Common Fisheries Policy (CFP), some form of transboundary fisheries management would be required. For example the UK could opt for full responsibility for managing the UK Exclusive Economic Zone (EEZ) in co-operation with the EU as a third country. Co-operative management arrangements would be required for transboundary stocks and highly migratory species, requiring efficient collaboration with the EU on monitoring and regulation. The landing obligation for discarded fish would likely continue².
- **Access:** To the UK EEZ by foreign vessels and to EU waters by UK vessels would be subject to negotiation.
- **Data collection:** The UK would be responsible for research requirements, data collection, with sharing and analysis subject to negotiation.
- **Marine conservation:** Would no longer be governed by EU environmental legislation (e.g. Birds and Habitats Directives, Water Framework Directive and Marine Strategy Directive) with the UK having the option to weaken/strengthen current environmental legislation. Those exporting to the EU would have to comply (and would have reduced influence in shaping this legislation).

3.2.3. Trade tariffs

Shallow Brexit

Under a bilateral trade arrangement, depending on the final negotiated position, trade restrictions with the EU market would be reduced; a range of traded goods would be free from tariffs and quotas. In return for that access, a number of trade restrictions would apply. Free trade would rely on the EU's Rules of Origin to ensure a sufficient share of the product's value either originated in the UK or from partners under relevant trade agreements (re-exported goods would face the EU external tariff). In addition, free trade may require a number of other obligations such as budget contributions, social and employment legislation, EU product regulations, non-tariff barriers etc (see below). The UK would not have access to the EU's other free trade agreements, but would negotiate other trade agreements with countries outside the UK-EU arrangement.

Deep Brexit

Without tariffs UK exports/imports would trade at world prices, governed by WTO rules. Although 'most favoured nation' (MFN) tariffs in the EU have been moving downward, and tariffs incurred on seafood products under WTO/MFN rules are moderate, UK seafood exporters and importers would be subject to challenging price competition from lower cost nations. There may be possible transitional 'EU free-trade' agreement in key sectors.

3.2.4. Regulation and non-tariff barriers

Shallow Brexit

Depending on the negotiated settlement, the UK could reduce non-tariff barriers by continuing to adhere to EU regulations and adopting EU product standards across the whole economy; either by implementing EU laws or adopting equivalent UK legislation. With the UK no longer participating in the collective decision-making determining these regulations, the UK would be a 'rule taker'. In addition, goods would still be open to any anti-dumping action on the part of the EU.

Deep Brexit

The UK could limit non-tariff barriers to those circumstances which WTO agreements permit (principle of non-discrimination). EU rules and standards would apply only to those businesses exporting to the single market, all other businesses would be free to operate under UK regulations and standards, in which case the UK would be a 'rule maker'. This could give rise to a potential divergence between the UK and EU standards.

3.2.5. Access to labour

Shallow Brexit

Under a bilateral trade arrangement, depending on the final negotiated position, free movement of and residence of EU nationals (and access to the EU labour pool) is likely to be maintained but in a more restricted form. This would be a shift back for the UK from the EU system of citizen's rights to free movement and residence, to the free movement of workers more closely linked to national priorities and immigration policy. This could include a strengthening of the special rights, rules and privileges for UK nationals over EU citizens involving a variety of limits and controls, qualifications and exemptions. Examples include income thresholds prior to free movement, a cap on the inflow of migrants, migration limited to an approved shortage occupation list etc.

Deep Brexit

The movement and residence of EU nationals, and therefore access to the EU pool of labour, would be subject to UK controlled immigration. The same visa rules and requirements would apply to EU nationals as non EU nationals (individual EU nationals would be able to come to the UK if they qualified for a visa as a worker, student, family member of someone already settled here, or as a visitor). This would apply to all, rather than individual, Member States (the EU has a track record in preferring the same visa conditions apply to all EU Member States). Visa restrictions may be relaxed or tightened depending on the needs of the economy - some advocates have cited the Australian style points system as a possible arrangement.

3.2.6. Public funds

Shallow Brexit

Under a bilateral agreement, the level of public subsidy would depend on the final negotiated position. UK public subsidy might align with those in the rest of the single market to ensure a level playing field is maintained and UK operators were not

disadvantaged compared to EU competitors. The UK may make a (reduced) contribution to the EU budget. Similarly the UK Government may ensure state aid aligns with the EU with UK operators actively participating in EU funding programmes.

Deep Brexit

Under conditions of free trade, and in the global market, UK businesses would operate with minimal public subsidies (on the basis that the move from EU prices to world prices would reduce costs). State aid provision would be at the discretion of the UK Government. There would be no UK contribution to the EU budget.

4. Where Brexit developments might directly affect industry stakeholders.

Table 4.1 Where Brexit developments might directly affect industry stakeholders					
	Primary production	Trade	Manufacture	Outlets	UK consumer
Business climate	X	X	X	X	X
Fisheries and fish production	X			X	
Trade tariffs	X	X	X	X	X
Regulation and non-tariff barriers		X	X	X	
Access to labour	X		X	X	X
Public funds	X		X		

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