Trade flows in the UK shellfish sector & risks associated with the UK’s departure from the EU

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Aim

To identify the different trade flows in the shellfish sector 
and 
specific potential risks to those trade flows 
under 
different scenarios arising from the UK’s departure from the EU
Background – UK shellfish sector

- Largest of three fishing sectors in the UK
- 36% of value of fish landed by UK vessels in UK and abroad
- £339m at first landing in 2016
Background – UK shellfish sector

• Fishing
  • >1,933 vessels (41% of all active vessels)
  • Approx. 4,313 FTEs (54% of all FTEs in fishing)

• Processing
  • 79 shellfish-only + 55 mixed processing sites
  • Approx. 3,950 FTEs in shellfish-only processing
Most UK shellfish is exported to the EU....

• Fresh, frozen and smoked shellfish exports = £509m (2017)
  • Exports to EU = £432 m. (85%)
  • Exports to ROW = £77 m. (15%)
• Prepared shellfish exports to EU = £39m
• UK market is relatively small
• Main export markets
  • EU – France, Spain, Italy
  • RoW – China, S Korea
UK shellfish export value

RoW exports by species

• Nephrops: *Vietnam, China and India*

• Brown crab: *China and Hong Kong*

• Whelk: *South Korea and China*

• Lobster: *China and Japan*
Exports to the EU...

- Live, fresh or chilled shellfish provides the highest value
- Most exports to EU consumed within EU, rather than being traded on
- Major export country varies by species
  - Nephrops:  *France and Spain*
  - Lobster:  *France and Spain*
  - Brown crab:  *France and Spain and Portugal*
  - Velvet crab:  *Spain*
  - Cuttlefish:  *Spain and Italy and the Netherlands*
  - Scallops:  *France and Italy*
  - Clams:  *France and Spain and the Netherlands*
  - Mussels:  *The Netherlands*
EU market not readily replaceable

- Europe = single high value, high volume market for UK shellfish
- Possibility of replacing EU markets with alternative high value markets is challenged by:
  - difficulty of reproducing traditions of shellfish consumption
  - global production and trade of most shellfish types
- UK will not replace EU markets for higher value live, fresh or chilled shellfish
- Opportunities to develop alternative markets - relatively small-scale, might be exploited by others
- Preferential trade deals will not emerge quickly
Risks associated with Brexit....

• Future UK-EU trading relationship remains unknown, but potentially significant impacts:
  • EU Tariffs
  • ROW Tariffs
  • Non-tariff barriers esp. BIPs
EU tariffs could cost UK shellfish sector £41m. annually

• If no UK-EU FTA then UK shellfish exports to the EU will be subject to the EU’s ‘Most Favoured Nation’ tariffs
  • £41m p.a. - in worst case fully absorbed by UK shellfish sector
  • Equivalent to 8.7% of value of UK exports to the EU

• Extent to which price increases could be passed on to EU customer?
  • Are products scarce and of non-substitutable luxury value?
  • Does the UK dominate/control the market?
  • Broader economic parameters (ability to pay, exchange rate, EU economy)
EU tariffs could cost UK shellfish sector £41m. annually

- UK dominant supplier in some species (e.g. live European lobster) but not sole supplier. All species are at risk of product substitution
  - Likely that the major part of any tariff will have to be absorbed by UK producers/processors.
  - Any price increases in EU could lead to changes in consumption and demand
e.g. French trade balance for lobster, 2016
EU tariffs...

• UK does not have dominant position for some species e.g. cuttlefish, mussels, oysters, clams, cockles and razor clams
  ➢ Tariffs will necessarily be absorbed by UK suppliers

• Strong competition for live, fresh or chilled and for frozen and processed products from third countries.

• In some cases, these third-countries benefit from zero percent tariffs on exports into the EU
e.g. French trade balance for cuttlefish, 2016
e.g. Italian trade balance for frozen cuttlefish, 2015-2017
Third country tariffs could cost UK shellfish sector £6m. annually

• UK shellfish exports to ROW could also be impacted...
• UK would no longer be party to the EU-South Korea FTA...
• UK whelk exports to South Korea would be subject to South Korea tariffs, which would cost the UK industry a further £5.3m. - £5.8 m. annually.
UK trade balance for whelk, 2017
Non-tariff barriers could result in additional time and costs

- Range of potential non-tariff barriers → delay and/or add cost to shellfish exports.
- Delay due to additional paperwork and physical checks at borders.
- Likely to be greatest in the event of no agreement between UK and EU.
- Least flexibility to absorb delay with export of live shellfish, then fresh, then frozen.
- Impact of any given delay would vary by type of shellfish and transport used.
- Small delays → missed connections, driver hours, longer delays, let-down customers.
- Longer delays → shorter shelf life, loss of freshness, reduced quality and mortality.
Non-tariff barriers...

• Knock-on impacts of delay
  → lower prices, total loss of sale, additional costs
  → Over time.... damaged reputation, loss of customers and markets

• Some long-distance trade could become untenable (e.g. live langoustine from West of Scotland)

“For chilled products, even small delays (less than 12 hours) can impact the sale price.”

“The most likely outcome of delay is total loss.”

“Delays due to border crossing could make Portugal and Italy unrealistic markets”
Consequential impacts of tariff and non-tariff barriers:

- Decline in the profitability and viability of capture fisheries, aquaculture and shellfish processing industries
- Impact on livelihoods of fishermen and the economies and the character of coastal communities across England, Wales, Scotland and Northern Ireland.
## Risks to UK shellfish exports with no UK-EU FTA/CU

<table>
<thead>
<tr>
<th>Risk</th>
<th>Product/presentation</th>
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</thead>
<tbody>
<tr>
<td>Price reduction [to fully absorb EU MFN tariff]</td>
<td>Mussels, oysters, clams, cockles and razor clams, cuttlefish</td>
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<tr>
<td>Price reduction [to partially absorb EU MFN tariff]</td>
<td>Brown and other crab, lobster, nephrops, scallops</td>
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<tr>
<td>Price reduction [to fully absorb third-country MFN tariff]</td>
<td>Whelk</td>
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<tr>
<td>Loss of market share [resulting from price increases]</td>
<td>All</td>
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<tr>
<td>Loss of quality / increase in mortality [resulting from delays at border crossing]</td>
<td>All live shellfish</td>
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<tr>
<td>Degradation of customer relationships [resulting from delays at border crossings affecting connections and supply reliability]</td>
<td>All</td>
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<tr>
<td>Additional costs [as a result of extra paperwork, checks, delays etc.]</td>
<td>All</td>
</tr>
<tr>
<td>Loss of market [as a result of tariffs + delay at border crossings]</td>
<td>All live shellfish, especially those travelling longest distances (at edge of range) and those with short shelf life (e.g. langoustine)</td>
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<tr>
<td>Additional compliance costs resulting from Rules of Origin requirements</td>
<td>Shellfish caught outside UK territorial waters including, scallops, brown crab and nephrops</td>
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</tbody>
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Thank you!

Questions and comments