

## Holy Mackerel! What fish can tell us about Brexit's next wave

What can mackerel tell us about the next steps on Brexit? It all boils down to whether the British government believes accepting tariffs is a fair price to pay for greater control over the likes of fishing and state aid rules. Despite all the tough rhetoric, we still reckon a free trade agreement can and probably will be agreed between the EU and the UK this year



Will Britain rule the waves after Brexit negotiations?

### There are big differences between the UK & EU's opening positions

A week-or-so on from the UK's exit from the European Union (EU), you'd be forgiven for feeling a sense of déjà vu.

Much like the first phase of Brexit, UK newspaper headlines have signalled there will be "no more concessions" in trade talks, and a renewed willingness to walk away from negotiations.

The opening positions from the UK and EU reveal a number of fundamental differences in opinion, and markets are unsurprisingly re-evaluating the likelihood of a trade deal this year.

Two issues have particular potential to throw talks off-course.

The first is the so-called 'level-playing field' commitments. Wary about British firms gaining a competitive edge through deregulation, Brussels is keen for London to sign up to EU rules on things like workers' rights, the environment - and most controversially as far as the UK is concerned - state aid rules.

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Secondly, there's fishing. The UK will, in theory, regain control of its fishing waters, or its 'exclusive economic zone' (EEZ) as it is officially known, once the transition period ends. This includes the rich fishing grounds that extend a couple of hundred miles off the coast of Scotland.

EU nations currently have shared access to each other's waters, with the exception of an exclusion zone around a country's coastline. Fish landings are limited by quotas to help sustain stocks. Brussels is keen to maintain the status quo as part of the future relationship.

Getting these issues resolved will be tough in what is a very short negotiation period - the standstill transition period will end as we enter 2021. Don't forget that past EU trade deals have taken multiple years to negotiate and implement.

## UK newspaper headlines from early February



Source: Daily Telegraph, Sunday Express, Bloomberg, Daily Mirror (online)

## There are some reasons for optimism

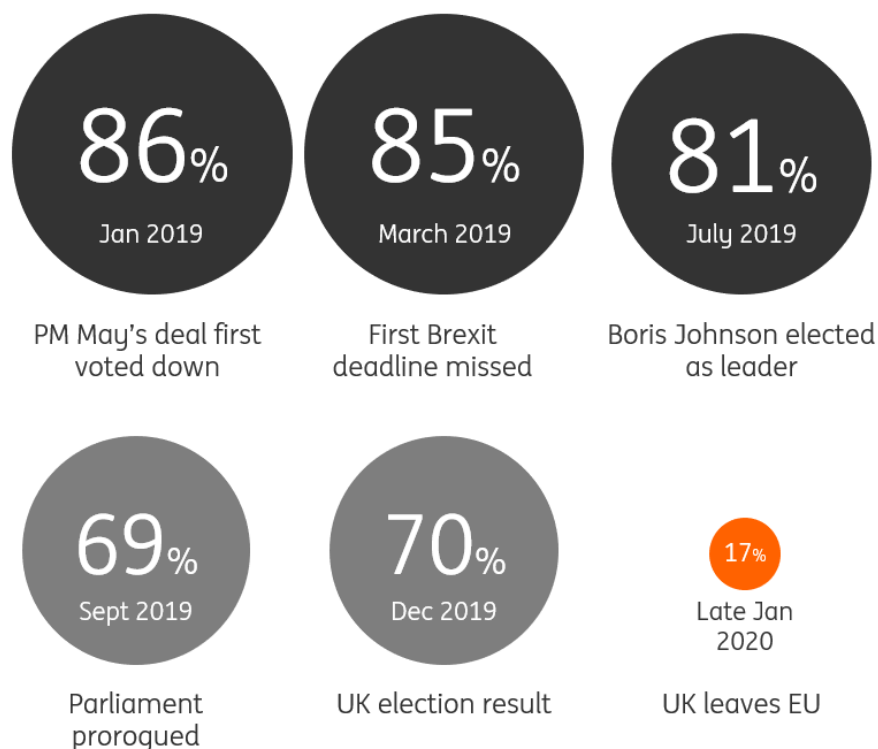
There are though some reasons to believe a free-trade agreement is possible this year. Trade experts generally believe a bare-bones FTA covering goods is just about feasible, assuming the UK makes concessions.

Time will tell just how red Britain's 'red lines' are, but it's clear that speed is a priority for the UK government. PM Johnson has made his intentions very clear by effectively enshrining the 31 December deadline in UK law - a signal that the government doesn't intend to extend the 11-month transition period. That perhaps suggests that the government may ultimately concede in some areas to get a deal wrapped up this year.

There is also some early evidence that public interest in Brexit news is falling. According to *Populus*, less than 20% of the public 'noticed' news stories about Brexit during January, even in the week where the UK left the EU. Compare that to last year, where [69% of the public](#) 'noticed' Brexit stories when Parliament was prorogued, and 86% when Theresa May's deal was first defeated last January.

The government isn't set to face voters again until 2024, so the prime minister arguably has some extra flexibility to make concessions if he wants to.

## The percentage of the public that 'noticed' Brexit news stories at the time



Source: Populus

Polling firm Populus asks adults every week what news stories they have noticed

## Fishing could be less contentious than it appears at first glance

Fishing may also prove to be less contentious than it first seems. While it is an issue that cuts deep into the Brexit divide, access to overseas markets is critical for the British fishing industry. The UK exports most of what it catches, and imports the majority of what it eats (including up to [95% of the cod in fish and chip shops](#)).

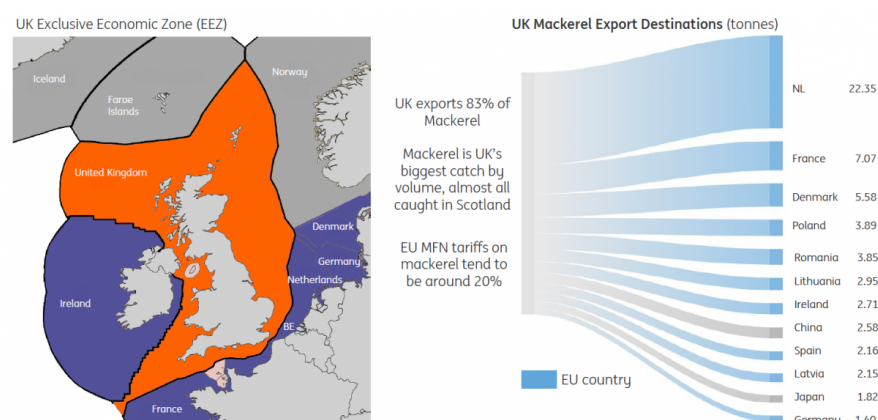
Take mackerel. It's the UK's biggest catch at sea by weight - [19% of the total](#) fish landed by British

boats. But mackerel was only the **eighth best-selling fish** among British shoppers in 2018 according to *Seafood*. Just over four-fifths is exported, the majority to the EU (the Netherlands in particular).

Without a free-trade agreement, the EU would most likely impose its 'most favoured nation' tariff. For mackerel, this is **up to 20%**, which when added to costs set to be added by new health certification requirements and customs processes at the UK-EU border, could be seriously damaging to the industry.

We, therefore, suspect a deal on fishing is possible, albeit maybe not by the end of June as the end EU envisages. Ultimately it is a question of finding a quota-split, and way of managing them over time.

## The UK's fishing grounds (left) and mackerel export destinations (right)



Source: House of Lords, UK Sea Fisheries Statistics 2018

Updated on 10th June to correct wrongly-ordered countries on right-hand axis (data is unchanged)

## The risk of no trade deal is has undoubtedly risen

A free-trade agreement is, therefore, perhaps more likely than not. But there is also little doubt that the risk of there being no trade deal in place at the start of 2021 is also rising.

The key thing to remember is that a free-trade agreement does not mean frictionless trade. With-or-without an FTA, there will be new customs documentation required. UK firms will need to prove that a certain proportion of their good is produced in the EU to qualify for zero tariffs (and likewise for EU exports to the UK).

Anecdotally, firms often say it is simpler and sometimes cheaper to pay the tariff than it is to try to document their supply chain. There will also be checks on standards, which can be especially intrusive for animal/food products. VAT will also need to be paid on entry.

Access for UK services to the EU will become more limited, with or without a deal.

In other words, the difference between having a free-trade agreement and not isn't massive, at least in economic terms. Politically, that means that walking away from these trade talks isn't quite the same thing as it was in previous Brexit negotiations.

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## *Deal or no deal, expect some fairly large changes to the way the UK trades with Europe in 2021*

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The UK government has so far remained adamant that it won't accept the 'level playing field' provisions, arguing what the EU is asking for is more stringent than those contained within other EU free-trade deals. The prime minister may decide that tariffs are a fair price to pay for greater control over state aid and fishing, amongst other things.

Flipping the same argument on its head, the EU side arguably has very little incentive to offer concessions given that the prize of getting a free-trade agreement – no tariffs/quotas – is not huge. It's also probably fair to say that Brexit is lower down the EU's list of priorities this year.

Of course if there's not a deal this year, that doesn't mean there can't be one in the future – although this could take time, particularly if this year's talks were to breakdown acrimoniously.

So where does all of that leave us? Well, we're still inclined to say a bare-bones free-trade agreement can, and probably will, be struck later this year. But it will ultimately come down to how far the UK is willing to concede on fishing and 'level-playing field', and whether the government believes accepting tariffs is a fair price to pay for the additional autonomy in these areas.

For the UK economy and businesses though, the key takeaway is that there are likely to be some big changes to the way the UK trades with Europe from 2021 - whether there's a deal or not.

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