Department for International Trade

Free Trade Agreement between the United Kingdom and Norway, Iceland, and Liechtenstein

Impact assessment

Contents

Summary

The United Kingdom and Norway, Iceland, and Liechtenstein have negotiated a new comprehensive free trade agreement (the Agreement).

Total trade with these countries was worth £27.1 billion in 2019, with just over three quarters in goods trade.[01]

Between 2019 and 2030, Norway and Iceland's demand for imported goods and services is projected to grow by around 40% in nominal terms.[02] If the United Kingdom retained its existing market share in those countries, the increase in demand would translate into an additional £3.5 billion in United Kingdom exports. This would push total United Kingdom exports to Norway and Iceland to around £12 billion by 2030 (from £8.3 billion in 2019).[03]

Since January 2021, the trade in goods between the United Kingdom and Norway and Iceland has been governed by the Agreement on Trade in Goods Between the United Kingdom of Great Britain and Northern Ireland, Iceland, and the Kingdom of Norway. This agreement is a goods-only trade agreement, and is referred to as "the Agreement on Trade in Goods" in this document. In the case of Liechtenstein, trade in goods continues to be covered by the Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation. This is because Liechtenstein is in a customs union with Switzerland.

The United Kingdom has now negotiated a more ambitious free trade agreement (FTA) with Norway, Iceland and Liechtenstein. The Agreement will provide increased market access on a range of agricultural products traded with Norway as well as include services trade with Norway, Iceland, and Liechtenstein.

01 ONS, UK total trade: all countries, non-seasonally adjusted: October to December 2020. The trade flow and GDP statistics for this impact assessment are based on the period 2019. Data are available for trade in 2020 and early 2021. These data have not been used as the reference period because of the coronavirus-related impacts on the United Kingdom and many of its trading partners.

02 Estimates for nominal import growth are constructed in two stages. First, nominal GDP growth in US dollar terms is projected forward for each country using the IMF's World Economic Outlook (April 2021) forecasts out to 2026 and then extrapolated forward using 2025-2026 growth rate as a proxy for trend growth. Second, nominal imports in 2019 – as measured by UNCTADStat's merchandise and services imports in US dollar terms – are assumed to grow in line with nominal GDP from 2020 onwards (implying the import to GDP ratio remains flat at its 2019 level).

03 Based on projected growth in imports in nominal terms.

The impacts of the Agreement

This impact assessment aims to provide Parliament and the public with an assessment of the incremental impacts of the Agreement relative to the Agreement on Trade in Goods. The additional impacts of the Agreement are expected to be concentrated across services sectors and some agricultural sectors such as fisheries, dairy, and meat.

Compared to the Agreement on Trade in Goods, the impacts on producers and consumers in particular sectors could be significant. Some producers are likely to benefit from greater market access opportunities or greater legal certainty when trading with Norway, Iceland, and Liechtenstein. On the other hand, some producers may experience cheaper imported inputs or increased competition. Consumers of products where United Kingdom tariffs have been removed or reduced could benefit from lower prices and increased choice.

The United Kingdom has secured a free trade agreement that could help enhance a trading relationship worth £27.1 billion 2019

Trade in services and investment

A key objective of the Agreement is to support the growth of services trade and to deepen the trade in services relationship. The Agreement on Trade in Goods signed on 8 December 2020 did not contain provisions on trade in services. Services accounted for 47.2% of United Kingdom exports of goods and services to Norway, Iceland, and Liechtenstein in 2019.[04]

Total United Kingdom services trade with Norway, Iceland and Liechtenstein was worth £6.0 billion in 2019

The Agreement delivers more opportunities across services and investment and a range of other areas including digital, procurement and telecoms. Examples include:

- enabling investors to appoint preferred candidates for senior management without being limited by nationality and residency criteria
- cutting-edge digital trade provisions that will see cooperation on emerging and new technologies, and strong data protection commitments that will safeguard consumers and businesses
- facilitating the capping of international mobile roaming charges with Norway and Iceland
- securing an innovative and comprehensive system for the recognition of professional qualifications for regulated professions. This will bring more certainty to professionals in the United Kingdom, Norway, Iceland, and Liechtenstein and aid them in their journey to gaining recognition decisions
- improving legally guaranteed market access above the level in the Agreement on Government Procurement for suppliers in the United Kingdom wishing to bid for government procurement contracts
- providing legal certainty for highly-skilled businesspeople and businesses in the United Kingdom as they will continue to have access to Norway, Iceland, and Liechtenstein for business travel. It will allow for easier long-term business planning and greater administrative clarity following the end of the transition period

In 2019, the stock of FDI from the United Kingdom in Norway, Iceland, and Liechtenstein was £1.1 billion. At the same time, the stock of FDI from these countries in the United Kingdom was £11.0 billion

Trade in goods

The Agreement will liberalise or further reduce tariffs between partner countries. Based on 2017 to 2019 average trade flows it is estimated that:

- duty free access on United Kingdom exports to Norway could increase to 97.6% from 96.4% **(increase of 1.2ppts)** compared to the Agreement on Trade in Goods. Similarly, duty free access on United Kingdom imports from Norway could increase to 99.7% from 99.5% **(increase of 0.2ppts)**
- total annual tariff reductions on United Kingdom exports to Norway could be **£4.1 to 8.1 million.** Whilst the total annual tariff reductions on United Kingdom import duties from Norway could be between **£1.3 and 2.9 million**[05]

04 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: October to December 2020.

05 DIT internal analysis. TradeMap/HMRC 2017 to 2019 average trade flows. Ranges have been provided to reflect uncertainty around disaggregated trade flows. See Annex A for detailed methodology.

Businesses in the United Kingdom will be able to benefit from new tariff rate quotas (TRQs) and increased volumes under existing TRQs.[06] Examples include:

- 25 new or expanded outward TRQs in the Agreement ensuring zero tariffs for approximately £1 million worth of trade. United Kingdom exporters of products such as pork, sausages, poultry and eggs will be able to benefit from new or expanded TRQs
- 3 new inward TRQs. United Kingdom businesses and consumers will be able to import products such as cut flowers, whey and whey protein, from Norway at a lower cost

The Agreement delivers more opportunities for the United Kingdom's agricultural sectors, examples include:

- **fisheries sector –** United Kingdom import tariffs on shrimps, prawns and certain whitefish have been reduced. This could help support the United Kingdom fish processing industry and could benefit United Kingdom consumers through lower prices. There will be new opportunities for fish feed exporters, many based in Scotland, to export tariff free to Norway. Norway is a significant market for fish feed exports
- **meat sector –** the Agreement will create new opportunities for United Kingdom meat exporters (pork meats, sausages and poultry) to export duty-free to Norway through duty-free quotas. These are exclusively accessed by United Kingdom producers only. The United Kingdom will be able to export pork belly duty-free under quota to Norway (compared to European Union producers where an in-quota rate applies)
- **dairy sector –** the Agreement reduces tariffs for exporters to Norway of specific high quality United Kingdom hard cheeses. These include – West Country Farmhouse Cheddar, Orkney Scottish Island Cheddar, Traditional Welsh Caerphilly, and Yorkshire Wensleydale cheese. It also maintains an exclusive, United Kingdom-only, duty free quota for all cheeses and allows new duty-free market access for United Kingdom export of eggs to Norway

Total United Kingdom goods trade with Norway, Iceland, and Liechtenstein was worth £21.1 billion in 2019

Wider impacts

The Agreement contains a dedicated chapter on **small and medium size enterprises (SMEs)**. The chapter will commit to make information about the Agreement accessible online, in order to help SMEs find out what the new rules are. In addition, government contact points will be established to assist all parties to work together on matters that will support SME trade.

The Agreement also contains provisions that will commit all parties to cooperation on matters of **animal welfare** as well as to exchange of technical information and best practices for providing **safe and high quality foods** for consumers.

The Agreement is not expected to affect the United Kingdom's ability to reach its legally binding emissions targets, including Net Zero. The **environmental provisions** included in the Agreement are intended to help improve the environmental performance of all parties of the Agreement. **Protected groups** in the labour market (in relation to age, sex, ethnicity, and disability) are not expected to be disproportionately negatively affected by the provisions in this Agreement.

Every part of our country will have the opportunity to benefit from the liberalisation of goods and services in the Agreement.

The Agreement is not expected to result in any significant impacts on **developing countries**.

06 When compared against the baseline of trading with Norway and Iceland under the Agreement on Trade in Goods and under Most Favoured Nation (MFN) terms with Liechtenstein. Value of trade based on 2017 to 2019 average trade flows.

1. Background

The United Kingdom and Norway, Iceland, and Liechtenstein have negotiated a free trade agreement (FTA) which aims to enhance the existing trade and investment relationship.

Since January 2021, trade in goods between United Kingdom and Norway and Iceland has been governed by the Agreement on Trade in Goods Between the United Kingdom of Great Britain and Northern Ireland, Iceland, and the Kingdom of Norway (Agreement on Trade in Goods).[07] The aim of the Agreement on Trade in Goods was to transition existing preferential arrangements, originally governed by the EU-European Economic Area Agreement, into a bilateral context. It ensured that domestic businesses could continue to access the Icelandic and Norwegian markets after the end of the transition period with the European Union (EU). The Agreement on Trade in Goods represented the first step in continuing the United Kingdom's strong trading relationship with these two valued trading partners.

The Agreement on Trade in Goods includes provisions on market access, tariffs, tariff rate quotas, rules of origin and customs. It helped ensure zero-rate tariffs on industrial products and sought continuity on tariffs and tariff rate quotas for agricultural and fish products. The Agreement on Trade in Goods also helped ensure that over 90% of the United Kingdom's goods trade with Norway and Iceland remained duty free.[08] Trade in services between the United Kingdom, Norway and Iceland is not covered in the Agreement on Trade in Goods.

In the case of Liechtenstein, trade in goods continues to be covered via the Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation. This is because Liechtenstein is in a customs union with Switzerland.

The United Kingdom has now negotiated a more ambitious free trade agreement with Norway, Iceland, and Liechtenstein (referred to as "the Agreement" in this document). It will provide increased market access on a range of agricultural products traded with Norway and will increase the coverage of provisions to include services trade.

The aim of this impact assessment is to provide Parliament and the public with an assessment of the impacts of the United Kingdom's Agreement with Norway, Iceland, and Liechtenstein. The structure of the impact assessment is as follows:

- section 2 sets out the overarching objectives of the Agreement
- section 3 describes the economic, trade and investment relationship between the United Kingdom and Norway, Iceland, and Liechtenstein
- section 4 outlines the key sectoral impacts of the Agreement, namely across agri-foods, services and digital, including the impacts of key provisions
- section 5 describes the wider impacts of the Agreement; for example, labour and the environment
- section 6 outlines the implementation costs

It should be noted that not all parts of the Agreement apply to Liechtenstein.

The Chapters on Trade in Goods and parts of the Intellectual Property Chapter, in particular provisions on patent protection and Geographical Indications, will not apply to Liechtenstein.[09] In addition, the mechanism for reciprocally capping wholesale roaming rates which will enable suppliers to offer surcharge free international roaming, will also not apply to Liechtenstein.

07 https://www.gov.uk/government/publications/Agreement-on-trade-in-goods-between-the-united-kingdom-of-great-britain-and-northern-ireland-iceland-and-the-kingdom-of-norway-ms-no82020

08 Based on 2017 to 2019 average trade flows, the Agreement helped ensure that 99.5% of the United Kingdom's goods imports from Norway were tariff free (HMRC), and 96.4% of Norway's goods import from the United Kingdom were tariff free (TradeMap). The Agreement also helped ensure that 90.7% of the United Kingdom's goods imports from Iceland were tariff free (HMRC) and 92.0% of Iceland's goods imports from the United Kingdom were tariff free (TradeMap). See Annex A for detailed methodology.

09 Due to Liechtenstein's customs union with Switzerland, trade in goods between Liechtenstein and the United Kingdom will continue to be governed by a separate Agreement, the Agreement between the United Kingdom of Great Britain and Northern Ireland, the Swiss Confederation and the Principality of Liechtenstein, which has also been in force since 1 January 2021.

2. Objectives of the Agreement

The Agreement between the United Kingdom and Norway, Iceland, and Liechtenstein recognises the importance of maintaining and strengthening the economic, trade and investment relations, in accordance with the objective of sustainable development, including the economic, social and environmental dimensions.

The United Kingdom's Agreement with Norway, Iceland, and Liechtenstein recognises the importance of maintaining and increasing closer integration among economies in the world, addressing the many new economic challenges and opportunities facing the parties. This is important, in the current context of a dynamic and rapidly changing global environment brought about by globalisation and, more recently, the global coronavirus pandemic.

Building upon the existing relationship – the overarching objectives of the Agreement are to liberalise and facilitate trade and investment, as well as to promote a closer economic relationship between the United Kingdom and Norway, Iceland, and Liechtenstein.

The objectives are mindful of the needs of the business communities in each country. The objectives of the Agreement are to:

I. establish an **ambitious, broad-ranging** trade arrangement that reflects the United Kingdom's recent trading relationship with Norway, Iceland, and Liechtenstein as far as possible

II. remove trade barriers and **minimise as many gaps as possible** in the trading relationship between the United Kingdom and Norway, Iceland, and Liechtenstein as far as possible

III. ensure the Agreement works for **every corner of our country** and takes appropriate consideration of the **United Kingdom's constitutional arrangements and obligations**

3. Economy, trade, and investment

Economies: Norway and Iceland are high income economies with some of the highest average incomes in the world. Norway was ranked 7th in the world ($65,905) for GDP per capita (PPP) in 2019, whilst Iceland was ranked 13th ($60,419).[10] Consumers in Norway and Iceland are also high spending with average individual spending estimated at $33,814 and $34,082 respectively in 2019 (PPP), both above the OECD members average ($19,938).[11]

The economies of the United Kingdom, Norway and Iceland are all specialised in services, accounting for 79.4%, 65.4% and 73.1% of output in each economy respectively. However, Norway is relatively more specialised in industry than both the United Kingdom and Iceland, with 32.5% of output coming from this sector in 2019, compared with 20.0% for the United Kingdom and 22.0% for Iceland. Meanwhile, Iceland is relatively more specialised in agriculture than both the United Kingdom and Norway, with 4.9% of its output coming from agriculture in 2019, compared with 0.7% and 2.2% for the United Kingdom and Norway.[12]

Trade: Total trade between the United Kingdom and Norway, Iceland, and Liechtenstein was £27.1 billion in 2019 with just over three quarters of this being goods trade. The main contributions to this were United Kingdom imports of crude oil (£8.9 billion) and gas (£4.1 billion) from Norway. Total United Kingdom exports to these partners were collectively worth £8.4 billion in 2019, where the split between goods and services in United Kingdom exports is relatively even. Total United Kingdom imports from Iceland, Liechtenstein and Norway were worth £18.7bn in 2019. The United Kingdom imported a significantly higher share of goods than services from these countries in 2019, with £16.7 billion (89%) worth of goods and £2.0 billion (11%) worth of services imported.[13] Figure 1 and table 1 show the breakdown in trade as well as the top traded goods and services with these countries.

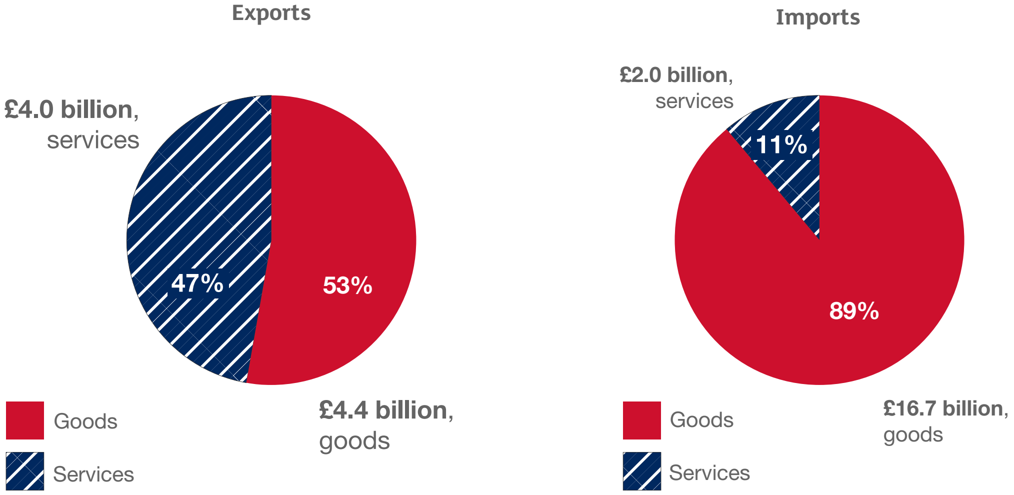
10 Data for Liechtenstein unavailable. IMF World Economic Outlook Database, April 2021. Gross domestic product, current prices.

11 World Bank Development Indicators: Households and NPISHs Final consumption expenditure (current US$) divided by Population, total.

12 OECD (2021), Value added by activity (indicators: 1) agriculture, forestry and fishing. 2) industry [including energy and construction], 3) services). Figures may not sum to 100% due to rounding.

13 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: October to December 2020 and ONS United Kingdom trade, March 2021

Figure 1: trade between the United Kingdom and Norway, Iceland, and Liechtenstein in 2019



Source: ONS, United Kingdom total trade: all countries, non-seasonally adjusted: October to December 2020.

Table 1: Top traded goods and services with Norway, Iceland, and Liechtenstein in 2019

Country	Top goods exports to	Top goods imports from	Top services exports to	Top services imports from
Norway	Crude oil £0.6 billion	Crude oil £8.9 billion	Other business services £1.2 billion	Other business services £0.7 billion
Iceland	Office machinery capital £0.06 billion	Fish and shellfish £0.3 billion	Other business services £0.2 billion	Travel £0.2 billion
Liechtenstein	Miscellaneous electrical goods (intermediate) £13.1 million	Material manufactures £2.8 million	Breakdown unavailable for 2019	Breakdown unavailable for 2019

Source: ONS United Kingdom trade, March 2021

Between 2019 and 2030, Norway and Iceland's demand for imported goods and services is projected to grow by around 40% in nominal terms (and around 20% in real terms).[14]

If the United Kingdom retained its existing market share in those countries, the increase in demand would translate into an additional £3.5 billion in United Kingdom exports based on the projected growth in imports in nominal terms. This would push total United Kingdom exports to Norway and Iceland to around £12 billion by 2030 (from £8.3 billion in 2019).

Investment: The stock of foreign direct invest (FDI) from the United Kingdom to Norway was £1.0 billion in 2019. Norway accounted for 0.1% of the total United Kingdom outward FDI stock in 2019.The stock of FDI from Norway in the United Kingdom was £7.9 billion in 2019. Norway accounted for 0.5% of the total inward FDI stock in 2019. The United Kingdom outward FDI stock from United Kingdom in Iceland was £56 million, in 2019. Iceland accounted for less than 0.1% of the total United Kingdom outward FDI stock, in 2019. The United Kingdom outward FDI stock from United Kingdom in Liechtenstein was £2 million, in 2019. Liechtenstein accounted for less than 0.1% of the total United Kingdom outward FDI stock in 2019. [15]

Businesses: In 2019, around 13,100 VAT registered United Kingdom businesses exported goods worth £3.4 billion to Norway and around 4,000 imported goods worth £15.9 billion from Norway. Over the same period, around 4,200 businesses exported goods worth £0.3 billion to Iceland and around 500 imported goods worth £0.5 billion from Iceland. Of the businesses exporting goods to Norway in 2019, 86.7% (or around 11,400) were SMEs, accounting for 41.4% of the United Kingdom's export value in goods to Norway. Of those importing goods from Norway, 77.8% (or 3,100) were SMEs. Figure 2 shows the number businesses trading goods with Iceland and Norway and the value of these goods exports.[16]

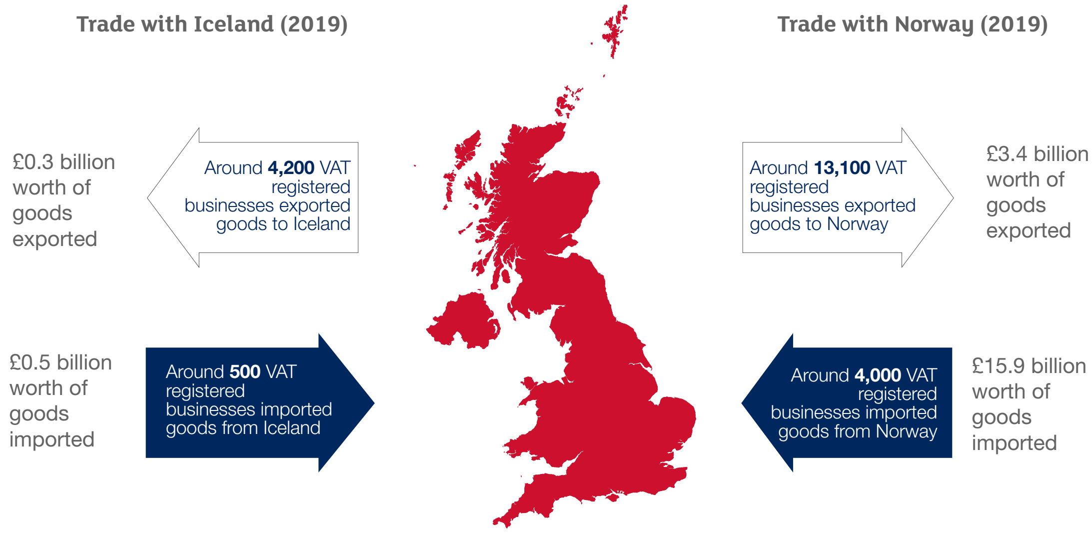
14 Estimates for nominal import growth are constructed in two stages. First, nominal GDP growth in US dollar terms is projected forward for each country using the IMF's World Economic Outlook (April 2021) forecasts out to 2026 and then extrapolated forward using 2025-2026 growth rate as a proxy for trend growth. Second, nominal imports in 2019 – as measured by UNCTADStat's merchandise and services imports in US dollar terms – are assumed to grow in line with nominal GDP from 2020 onwards (implying the import to GDP ratio remains flat at its 2019 level).

Estimates for real import growth are constructed by taking nominal imports for each country in 2019 – as measured by UNCTADStat's merchandise and services imports in US dollar terms – and growing them in line with the IMF's World Economic Outlook April 2021 forecast for real import volumes out to 2026 and then extrapolating those figures forward from 2026 to 2030 using the IMF's 2025-2026 growth rate for import volumes as a proxy for trend growth.

15 ONS, Foreign direct investment involving United Kingdom companies (directional): outward/inward.

16 BEIS, Business population estimates 2020. Table 5; HMRC Trade in Goods by Business Characteristics (2019). These numbers may not be mutually exclusive, since businesses trading with Norway may also trade with Iceland and vice versa. HMRC Regional Trade Statistics: fourth quarter 2020. HMRC Trade in Goods by Business Characteristics (2019).

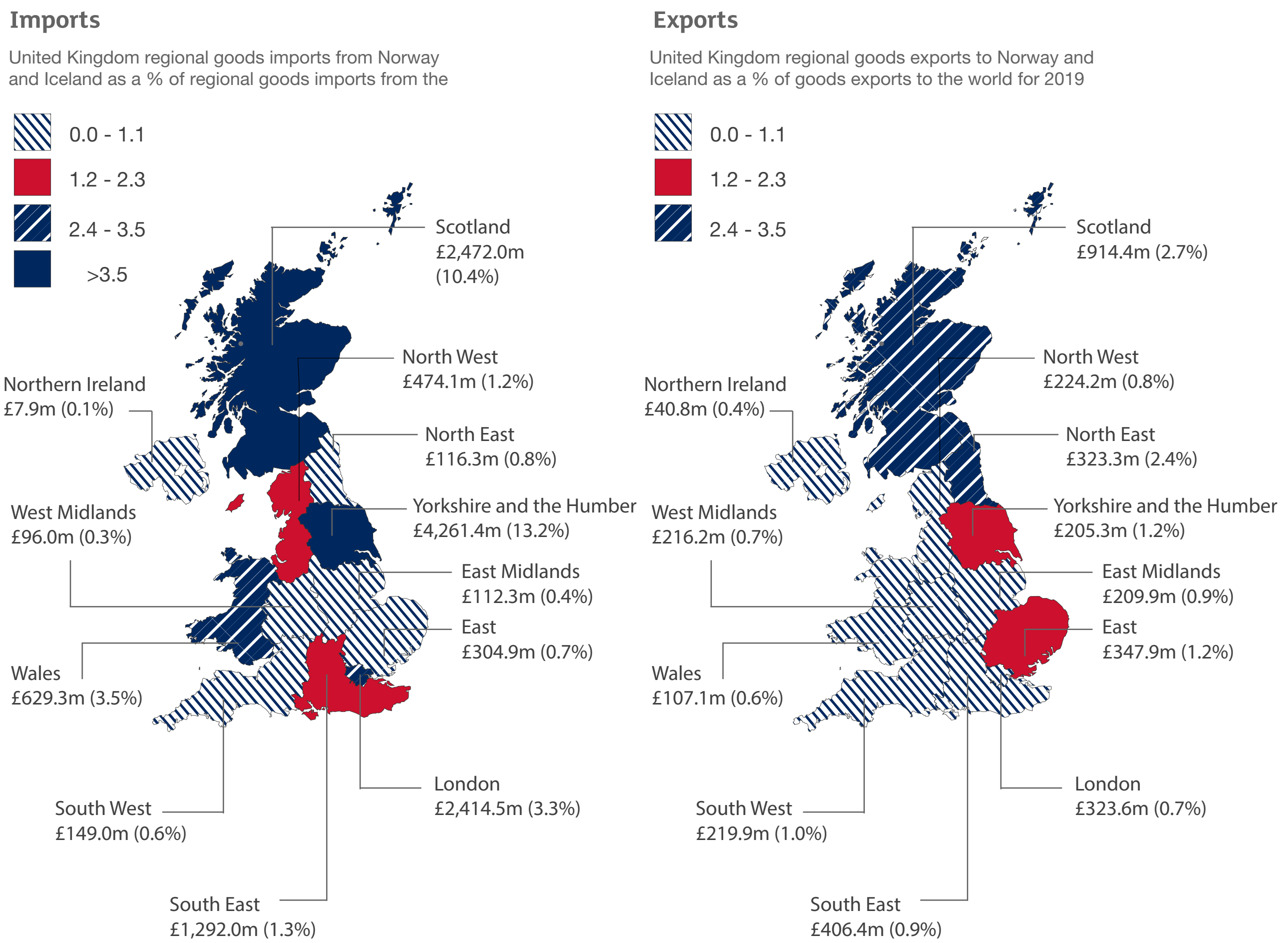
Figure 2: Businesses trading with Norway and Iceland in 2019



Source: HMRC, Regional trade statistics analysis: fourth quarter 2020, exports using proportional business count method.

All Parts of the United Kingdom trade with Iceland and Norway: The regions with the highest proportion of their goods imports from Norway and Iceland were Scotland (10.4%), Yorkshire and the Humber (13.2%), Wales (3.5%) and London (3.3%) in 2019. The regions with the highest proportion of their goods exports destined for these countries were Scotland (2.7%), the North East (2.4%), Yorkshire and the Humber (1.2%) and the East of England (1.2%) as shown in figure 3. See Annex C for a breakdown of goods trade between United Kingdom nations and regions and Norway and Iceland.

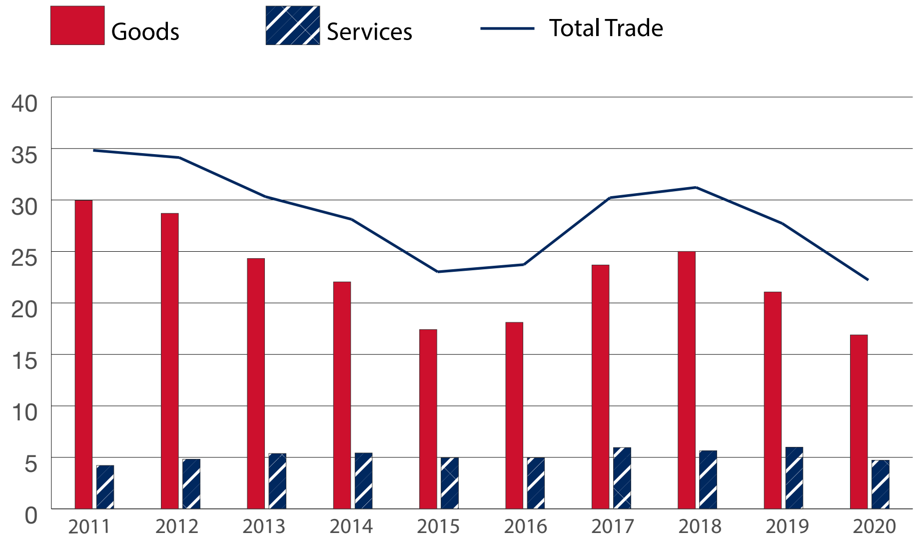
Figure 3: United Kingdom goods exported to and imported from Iceland and Norway by nation and region.



Source: HMRC Regional Trade Statistics, 2019 data

Trade between the United Kingdom and Norway, Iceland, and Liechtenstein in 2020 during the Coronavirus pandemic: the coronavirus pandemic has impacted the global economy.[17] United Kingdom trade (primarily goods trade) with Norway, Iceland, and Liechtenstein has fluctuated over the last 10 years as shown in Figure 4. In 2020, United Kingdom trade with these countries fell by £5.4 billion (or 20.1%) in comparison to 2019 as shown in figures 4 and 5. Over the same period, United Kingdom trade with the rest of the world fell by 17.2%.[18]

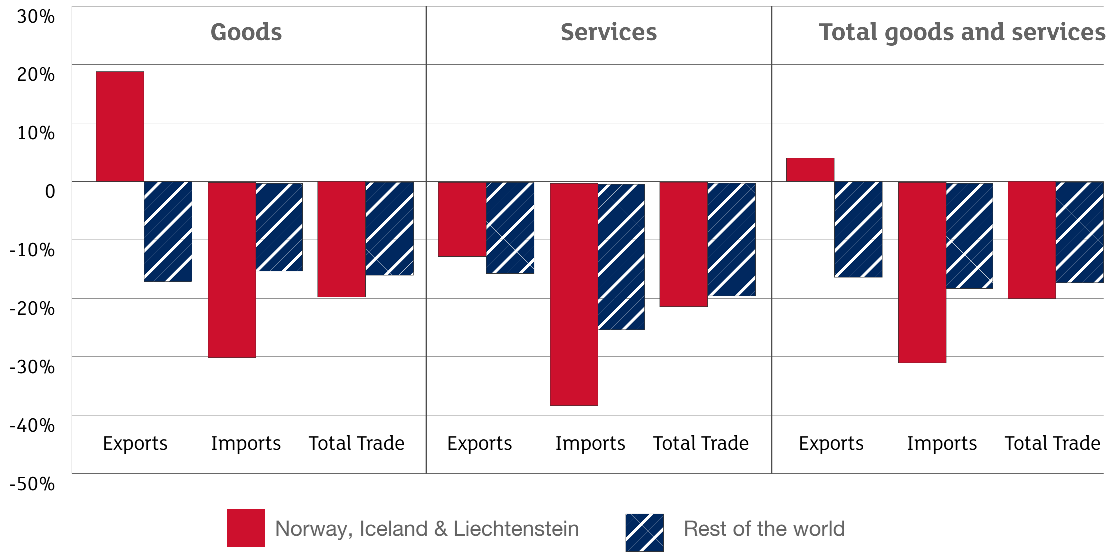
Figure 4: United Kingdom trade (exports and imports) in goods and services with Norway, Iceland, and Liechtenstein



Source: ONS, United Kingdom total trade: all countries, non-seasonally adjusted: October to December 2020.

Total trade with Norway, Iceland, and Liechtenstein declined in 2020, compared to 2019, in line with United Kingdom trade with the rest of the world as shown in Figure 5 below. However, United Kingdom goods exports to Norway, Iceland, and Liechtenstein increased by 18.8% compared to United Kingdom goods exports to the rest of the world which decreased by 17.1% between 2019 and 2020. The increase in United Kingdom goods exports to Norway, Iceland, and Liechtenstein were in machinery and transport equipment, ships, and aircraft products.[19]

Figure 5. Percentage change in trade from 2019 to 2020 for United Kingdom trade with Norway, Iceland, and Liechtenstein, and United Kingdom trade with the rest of the world.



Source: ONS, United Kingdom total trade: all countries, non-seasonally adjusted: October to December 2020.

The trade flow and GDP statistics for this impact assessment are based on the period 2019. Data are available for trade in 2020 and early 2021. These data have not been used as the reference period because of the coronavirus-related impacts on the United Kingdom and many of its trading partners.

17 World Trade: IMF World Economic Outlook, April 2021

18 United Kingdom Trade: ONS, United Kingdom total trade: all countries, non-seasonally adjusted: October to December 2020.

19 ONS (2021) Trade in goods: country-by-commodity exports.

4. Sectoral impacts

Telecomunications – establishes a mechanism for reciprocally capping wholesale roaming rates, which will enable suppliers to offer surcharge-free international roaming for their consumers travelling between these countries – providing greater accessibility and connectivity for consumers and businesses when travelling and working across these countries.

Mobility of persons – guaranteed visa processing times for highly – skilled professionals and establishes an innovative and comprehensive system for the recognition of professional qualifications where regulated. The Agreement also supports investors in appointing their preferred candidates to senior management, doing away with nationality and residiency constraints.

Digital – commitments on future cooperation on new emerging technologies along with strong data protection and intellectual property commitments, combined with agreement on paperless trading, improve the trading environment for businesses.

Government procurement – the United Kingdom, Norway, Iceland and Liechtenstein have also agreed an extension of market access coverage beyond the Government Procurement Agreement (GPA). This will provide businesses with additional opportunities and will benefit contracting authorities through increased competition, helping to deliver better value for money for the taxpayer.

Fisheries – tariffs on United Kingdom exports to Norway have been reduced from approximately 10.5% to 0.0% on the main fish feed product line, which could result in annual tariff reductions on United Kingdom exports of £4.1 million based on 2017 to 2019 average trade flows. The United Kingdom has eliminated import tariffs on shrimps and prawns where tariff reductions are estimated to be between £1.0 and 2.7 million per annum based on 2017 to 2019 average trade flows.

Dairy – United Kingdom exporters of West Country Farmhouse Cheddar, Orkney Scottish Island Cheddar, Traditional Welsh Caerphilly, and Yorkshire Wensleydale to Norway could see tariffs reduced from 277% to an improved specific duty.

Meat – higher volumes of duty free access have been obtained for United Kingdom exports of pork and poultry through new and enhanced TRQs.

Box 1: Service liberalisation

Economic evidence suggests that deep trade agreements increase services trade via the inclusion of provisions on specific services sectors which tackle behind-the-border barriers, such as regulatory alignment and national treatment rights.[20]

Trade in services and goods are inextricably linked and services sectors add value to other sectors in the economy. In 2015, the latest available data, 21.9% (£36.4 billion) of value added in United Kingdom manufacturing exports came from United Kingdom services sectors.[21] Evidence suggests that provisions related to services, investment, and competition contribute the most to the overall impact of trade agreements on trade in goods and services, for both gross and value added trade. Dhingra et al. (2018), looking at specific provisions in deep trade agreements, find that services, investment, and competition provisions contribute roughly 50% to the overall impact of trade agreements on trade in services, and between 30% and 35% on trade in goods.[22]

In practice, many countries' applied services restrictions are less restrictive than the restrictions that could be applied under the country's bound commitments in the General Agreement on Trade in Services (GATS). Figure 6, below, contains illustrative data showing the bound and applied level of restrictiveness and the policy space or 'Water' between them. A score of 1 indicates a completely closed market, while a score of 0 indicates a completely open market.

Figure 6: Illustrative chart on policy space or 'Water' between bound and applied levels

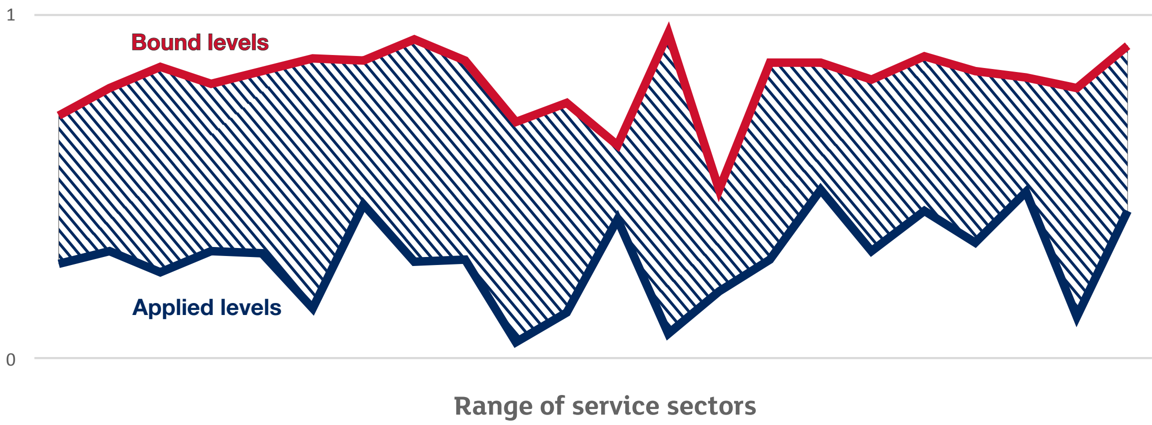


Chart is for illustrative purposes only and is not based on real world data.

The difference between the bound levels and the applied levels, known as 'Water', creates uncertainty for businesses looking to invest. This has a restricting effect but to a lesser degree than restrictions above the bound level. Reducing the water level can increase services trade.

FTAs can also boost trade in services by improving market access for foreign services providers through expanding upon existing commitments which ensure a level playing field between domestic and foreign service providers. More typically, FTAs increase trade in services by including provisions which 'lock-in' levels of market access to prevent further restrictions to foreign service suppliers being imposed in the future as illustrated in figure 6. The evidence suggests that this generates a more stable and predictable policy environment which encourages foreign service suppliers to export and invest in the partner's market.[23]

Ciuriak and Lysenko (2016) find that binding commitments have around 40 to 50% of the impact on services trade as equivalent practical liberalisations.[24] They also estimate that moving from GATS commitments to FTA commitments leads to a 4.7% increase in services trade because of the reduction in uncertainty.[25]

The Agreement includes provisions on cross-border trade in services and investment that will secure continued market access across a broad range of sectors, including professional and business services, financial services, and transport services, and could support new and continued foreign direct investment. Many provisions in the Agreement, including clearer rules for financial services, and legal certainty for shipping and international maritime transport services could have a positive effect on trade by reducing the bound level of restrictiveness, reducing uncertainty.

20 See for example: Guillin (2013); Lamprecht and Miroudot (2018).

21 OECD: Trade in Value Added (TiVA) (2021). USD value converted to GBP by taking Bank of England exchange rate average for 2015

22 'Beyond Tariff Reductions: What Extra Boost From Trade Agreement Provisions?', LSE CEP, March 2018.

23 See Ciuriak, Dadkhah and Lysenko (2020).

24 Quantifying Services-Trade Liberalization: The Impact of Binding Commitments', Ciuriak and Lysenko, June 2016.

25 'The Effect of Binding Commitments on Services Trade', Ciuriak, D. et al., July 2019.

4.1 Telecommunications

The United Kingdom has a trade surplus in telecommunications services trade with Norway, Iceland, and Liechtenstein. In 2019, the United Kingdom exported £419.2 million and imported £35.2 million in telecommunication services to and from these countries.[26]

This sector employed 215,000 people across around 8,400 businesses and accounted for 1.8% of GVA (£35.0 billion) in 2019.[27] The sector is also highly productive and has relatively high wages, with labour productivity 2.3 times greater than the United Kingdom economy as a whole, and a median annual wage of £38,054, 1.5 times greater than the United Kingdom median wage.[28] Trade is also important to the telecommunications sector, with 65,000 United Kingdom jobs in the sector being directly or indirectly supported by total United Kingdom exports to the world in 2016.[29]

Data from the OECD's Services Trade Restrictiveness Index (STRI) shows that Norway and Iceland's telecommunications sectors are relatively open but more restrictive than the United Kingdom and the OECD average. In 2020, Norway scored 0.2 and Iceland scored 0.3, while the United Kingdom scored 0.1, whilst the OECD average was 0.2. Annex B provides further detail.[30]

The Agreement contains provisions that:

- lock in existing levels of liberalisation in the United Kingdom and Norway, Iceland, and Liechtenstein markets. The Agreement includes provisions on access to and **use of telecommunication networks, interconnection, fair and transparent regulation, and confidentiality**. The provision on authorisation is the most liberalised version of the regime, mirroring the Agreement with the European Union and the United Kingdom's light-touch regulatory approach. It ensures that businesses from either Party will not have to wait for prior authorisation before they begin to deliver services
- create a **mechanism for reciprocally capping wholesale roaming rates which will enable suppliers to offer surcharge free international roaming**. This opens the door to guaranteeing that United Kingdom consumers will be able to continue to use their existing minutes and data packages when they travel to Norway and Iceland (does not apply to Liechtenstein), without facing additional charges

Consumer impacts: While it is difficult to evaluate the economic impact of International Mobile Roaming (IMR) Agreements due to the lack of test cases, the European Union's 'Roam like at Home' (RLAH) regulation provides a sense of what these impacts may be.[31] Immediately following the removal of roaming charges in the European Union in 2017, travellers used on average almost four times more data while roaming in the EU.[32] These significant behavioural changes suggests that the high cost of roaming had dissuaded people from using data and other services when roaming abroad and that the benefits were felt by consumers when surcharges were eliminated.

Securing this international mobile roaming provision in the Agreement will help provide some certainty that United Kingdom consumers could be protected from higher roaming charges when travelling to Norway and Iceland in the future. In the past, several United Kingdom mobile operators had stated they had no plans to change their mobile roaming policies and introduce surcharges for the European Union and European Economic Area countries. [33] However, this provision opens the door to helping to ensure that this will remain unchanged in the future. There were 525,000 visits by United Kingdom residents to Norway in 2019, this provision could help benefit significant numbers of United Kingdom consumers travelling to Norway and Iceland in the future.[34]

Business impacts: Promoting fair and transparent access to the telecommunication market will help ensure a competitive environment and will assist United Kingdom firms operating in Norway, Iceland, and Liechtenstein to innovate and grow. The provisions may not result in significant economic impacts given that United Kingdom trade with Norway, Iceland, and Liechtenstein in this sector makes up only 3.7% of United Kingdom total trade in this sector.[35] Opening the door to securing international roaming in the future could also help ensure that businesses in the United Kingdom, Norway, and Iceland are protected from potential

26 ONS, International trade in services, by service product and country (2019). Includes service code 22 Telecommunications services). Data for 2020 is not available from this source.

27 Employment: ONS Business Register and Employment Survey (2019), SIC codes used: 61 (Telecommunications)

Businesses: ONS United Kingdom business; activity, size and location (2020). SIC codes used: 61 (Telecommunications).

GVA: ONS GDP Output Approach – low level aggregates (2021). SIC codes used: 61 (Telecommunications).

28 Productivity: ONS Compendium of data related to labour productivity by low-level industry (2021). Wages: DIT Calculations using ONS Annual Survey of Hours and Earnings (2019). SIC codes used: 61 (Telecommunications). Both figures are for 2019.

29 DIT, Evaluating the impact of exports on United Kingdom jobs and incomes (2021). SIC codes used: 61 (Telecommunications).

30 OECD STRI (2021), where 0 represents a sector which is completely open to foreign service suppliers and 1 represents a sector which is completely closed.

31 https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2017)607294

32 EU Commission (2018) 'Report from the Commission to the European Parliament and Council: on the implementation of Regulation (EU) 531/2012 of the European Parliament and of the Council of 13 June 2012 on roaming on public mobile communications networks within the Union, as amended by Regulation (EU) 2015/2120 and Regulation (EU) 2017/920'

33 https://www.gov.uk/guidance/using-your-mobile-in-eu-and-eea-countries From January 2022, some roaming increases will be reintroduced.

34 Data for Iceland and Liechtenstein unavailable. Number of Visits: ONS, Travel trends estimates: United Kingdom residents' visits abroad.

35 International trade in services, by service product and country (2019). Includes service code 22 Telecommunications services in the UK, Norway and Iceland).

higher roaming charges in the future. The OECD has noted that lower roaming charges are also beneficial to the wider digital economy.[36]

The United Kingdom has had experience of integrating surcharge-free roaming into our domestic market and regulating this in an effective way to ensure that the needs of both businesses and consumers are met. However, there could be additional costs for mobile data companies depending on how the wholesale roaming cap is implemented and enforced.

Regional impacts: The telecommunications industry is relatively concentrated (with respect to employment) in London and the South East, therefore these regions could stand to gain the most from the opportunities into Norway, Iceland, and Liechtenstein's telecommunications market.[37] However, opening the door to securing international roaming prohibition could benefit consumers and businesses across all parts of the United Kingdom.

4.2 Mobility of persons

In 2019, there were 110,000 business visits to Norway by United Kingdom residents (data for Iceland and Liechtenstein are unavailable).[38] Business travel helped to facilitate both goods and services trade between the United Kingdom and Norway, Iceland, and Liechtenstein in 2019. Over the same period, 16.5% (£993 million) of total services trade between the United Kingdom and Norway, Iceland, and Liechtenstein, was delivered by the movement of natural persons to provide a service (known as mode 4).[39]

The Agreement contains provisions on the movement of natural persons for business purposes, referred to as Mode 4 services trade, as well as other cross-cutting provisions that enable the facilitation of trade and investment via the movement of natural persons. These provisions will give United Kingdom firms and individuals the legal certainty and administrative clarity they need to continue engaging in business activity and delivering goods and services in Norway, Iceland, and Liechtenstein following the end of the transition period. United Kingdom commitments on contractual service suppliers and independent professionals will also now enable service suppliers in some sectors from Norway, Iceland, and Liechtenstein to enter the United Kingdom and deliver contracts and therefore support competitiveness and innovation. The Agreement secured:

- **commitments on business visitors for establishment purposes; intra-corporate transferees; contractual service suppliers; and independent professionals. The Agreement also includes commitments on short-term business visitors**. It has been agreed to not to impose market access restrictions such as economic needs tests, or discriminatory barriers on businesspersons falling into these categories. In addition, the committed Short Term Business Visitor activities go beyond the United Kingdom-EU Trade and Cooperation Agreement (TCA) and bring in commitments on 'culture and entertainment' and 'entertainment staff', which will entail a change in Norway's immigration rules allowing touring artists and entertainers to stay and perform for longer in Norway than is currently allowed
- **commitments on length of stay**, including the ability for United Kingdom Short Term Business Visitors and Business Visitors for Establishment Purposes to travel to Norway or Liechtenstein for 90 days in any 180 day period, or Iceland for 90 days in a calendar year, without requiring a work permit
- comprehensive measures on transparency and procedural facilitation, **easing the burden on future visa and work permit applicants**. It guarantees that intra-corporate transferees can be accompanied by their partners (including unmarried and same-sex, where applicable) and dependents when placed abroad, with the right to work. In addition, completed visa applications for businesspersons in the committed categories, where required, will be processed within 90 days
- an innovative and comprehensive system for the **recognition of professional qualifications** in regulated professions, bringing more certainty to professionals in the United Kingdom and Norway, Iceland and Liechtenstein and aiding them in their journey to gaining recognition decisions
- a **commitment on residency and nationality requirements** for the senior management and directors of enterprises were also agreed. In practice, this will enable investors to appoint to senior positions their preferred candidates without being limited by nationality or residency criteria

Consumer impacts: These provisions could increase businesses choice of suppliers which could have positive impacts on consumers if any savings are transferred over to consumers from increased competition or if this results in better quality of goods and service provision.

Business impacts: The provisions relating to business mobility are expected to provide businesses in the United Kingdom, Norway, Iceland, and Liechtenstein with the legal certainty and administrative clarity they need to effectively engage in business activity and deliver services in these countries.

36 OECD (2016) 'Developments in international mobile roaming'.

37 DCMS Sectors Economic Estimates 2019: Employment

38 Business Visits: ONS, Travel trends estimates: United Kingdom residents' visits abroad (2019, tab 5.04).

39 ONS, All data related to Trade in services by modes of supply, United Kingdom: 2019

ONS, Modes of Supply data is experimental, and methodology used to compile the data are subject to future improvements. Total services exports are calculated by the total of mode 1, mode 2 and mode 4 (exclude mode 3). Caution is advised in interpreting this data. Small discrepancies exist between total of mode 1, 2 and 4 and 'United Kingdom trade in services by partner country' totals.

Provisions that help enhance the mobility of labour can help to increase the efficiency and productivity of United Kingdom workers and businesses as they help reduce the on-going administration burdens on United Kingdom businesses.

Mode 4 liberalisation has spill-over effects to other modes of supply. It is difficult for example, to establish commercial presence under Mode 3 if moving staff between different locations is burdensome, complicated, and difficult.

Workers and businesses in the culture and entertainment sector will directly benefit from the Agreement as Norway is changing its immigration rules on permitted length of stay for performing. Musicians and other artists and performers will be able to now carry out these activities, with their support staff, for up to 90 days in 180, rather than 14 days in a year in Norway. They will not require a visa or work permit either for this period. This will particularly benefit touring artists and musicians.

The provisions relating to the secured system for recognition of qualifications could result in some additional costs for regulators. Specifically, there could be potential administrative costs for regulators to establish or operate routes to recognition for regulated professions across the United Kingdom for professionals from Norway, Iceland, and Liechtenstein. These costs will vary across regulators, depending on how closely their existing routes to recognition align with the requirements in the Agreement. The Agreement also allows regulators to charge fees that are reasonable and proportionate to the costs of processing an application.

Regional impacts: The provisions that support labour mobility will provide an opportunity for all parts of the United Kingdom to benefit. Scotland could stand to particularly benefit given the significant proportion of Scotland's goods trade with Norway and Iceland. In 2019, 2.7% of Scotland's goods exports and 10.4% of Scotland's goods imports were to and from Norway and Iceland.[40]

4.3 Digital

According to the OECD, there is no internationally-agreed definition of digital trade. There is however a growing consensus that it encompasses digitally-enabled transactions of trade in goods and services that can either be digitally or physically delivered, and that involve consumers, firms, and governments.[41] The emerging definition is that of digitally ordered trade (for example e-commerce) and remotely delivered trade, which can be proxied by mode 1 (or cross-border) services trade, although digital will also be involved in other services modes of supply.[42]

The value of United Kingdom cross-border e-commerce (website and Electronic Data Interchange) sales by United Kingdom businesses was £693 billion in 2019.[43] E-commerce is the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders.

58.7% of United Kingdom services trade with Norway, Iceland, and Liechtenstein was remotely delivered in 2019.[44] Remotely delivered services are defined as services delivered remotely over ICT networks.[45] In 2019, remotely delivered trade with Norway (Mode 1 mode of supply), Iceland and Liechtenstein was worth £3.5 billion (£2.5 billion in exports and £1.1 billion in imports).[46]

Digital provisions are cross-cutting, thereby supporting the whole of United Kingdom trade with Norway, Iceland, and Liechtenstein, which was worth £27.1 billion in 2019.[47]

The OECD's Digital Services Trade Restrictiveness Index (Digital STRI) builds on the STRI by identifying cross-cutting barriers that affect all types of services traded digitally across five broad categories. The United Kingdom and Norway are among the most open countries for digitally delivered services according to this index.[48] Annex B provides further detail on the Digital STRI.

The Agreement includes provisions that will promote trade in digital services and facilitate new forms of trade in goods and services. These provisions also help create an environment of trust and confidence in the use of electronic commerce. These include:

40 HMRC, Regional trade statistics, 2019. Data on services not available.

41 OECD, Digital Trade.

42 IMF (2018) 'Towards a Handbook on Measuring Digital Trade: status update'

43 ONS (2021) 'E-commerce and ICT activity'

44 ONS, All data related to Trade in services by modes of supply, United Kingdom: 2019

ONS, Modes of Supply data is experimental, and methodology used to compile the data are subject to future improvements. Total services exports are calculated by the total of mode 1, mode 2 and mode 4 (exclude mode 3). Caution is advised in interpreting this data. Small discrepancies exist between total of mode 1, 2 and 4 and 'United Kingdom trade in services by partner country' totals.

45 Does not involve the movement of people

46 Mode I mode of supply taken as a proxy for digitally delivered trade

47 ONS, United Kingdom total trade: all countries, non-seasonally adjusted: October to December 2020.

48 OECD Digital STRI, 2020 data

- helping to facilitate the cross-border flow of data by **prohibiting requirements to store or process data** in a certain location. This prevents the imposition of costly requirements for domestic businesses
- strong **data protection commitments**, protecting consumers and helping to promote trust in the digital economy
- **the open government data measures** endeavour to ensure that when governments choose to make non-personal or anonymised public sector data available this is easily accessible and in an open, machine-readable format.
- a guarantee that neither the United Kingdom nor Norway, Iceland or Liechtenstein will discriminate against **electronic signatures or electronic documents** on the basis that they are in digital form and ensures that contracts can be completed digitally. The chapter provisions also ensure that the benefits of using electronic trade administration documents (paperless trading) are promoted across the United Kingdom and Norway and Iceland and that the parties work together to ensure standardisation and to take into account developments in paperless trading principles and guidelines
- in parallel it ensures companies are protected by a **guarantee against the forced transfer of source code** (version of software written by a human in plain text), **protecting valuable intellectual property**
- the Agreement also ensures that the United Kingdom and Norway, Iceland, and Liechtenstein will **cooperate** on digital trade issues in future, including **emerging technologies**

Consumer impacts: The provisions in the Agreement should have a positive direct impact on consumers, primarily due to the safeguards around personal data protection. There could be indirect benefits to consumers through potential cost savings that come from a reduction in trade barriers if transferred from businesses. However, the overall impacts of the provisions on consumers are not expected to be significant given that trade with Norway, Iceland, and Liechtenstein make up a small proportion of United Kingdom digitally delivered trade (1.1%).[49]

Business impacts: Digitalisation helps to reduce the costs of engaging in international trade, facilitates the co-ordination of global value chains, helps to diffuse ideas and technologies across borders, and connects large numbers of businesses and consumers globally.[50] Industries increasingly rely on data to efficiently produce and supply their products and services and many SMEs are particularly reliant on data flows to reach a global marketplace.[51]

The Agreement contains provisions enabling the free flow of data between the United Kingdom and Norway, Iceland, and Liechtenstein. Evidence suggests this could reduce the cost on business to access data needed to deliver services and could lead to business growth. The United States International Trade Commission's conducted modelling of the United States–Mexico–Canada Agreement. This modelling suggested that US firms exporting to Canada and Mexico would face reductions in barriers equivalent to a tariff reduction of up to 4.5% and 3.4% respectively due to the provisions on data flows and localisation in that agreement.[52]

Provisions in the Agreement encourage the production of accessible and usable open government data which businesses can use to create added value products to bring to market. One study found that businesses which re-use geographical data grew 15% more per annum in countries where governments released such information freely compared to countries that price such information to cover costs.[53]

Provisions in the Agreement safeguarding valuable source code and providing businesses with the benefits of paperless trading (for example, by recognising the legal validity of electronic documents and the authority of e-signatures) should bring certainty and reduce costs to business. Evidence suggests paperless trade facilitation can significantly reduce trade costs and that the use of e-signatures can improve the efficiency of trading, particularly for SMEs.[54]

The additional safeguards on the ability to use, store and process data on a cross-border basis have been agreed. This means that United Kingdom businesses trading with Norway, Iceland, and Liechtenstein are not obliged to store data in these countries. This will help avoid any associated costs of maintaining multiple data servers across jurisdictions.

The Agreement also contains provisions committing to dialogue and cooperation on new and emerging technologies to help encourage the adoption of new technologies which could indirectly benefit businesses over the longer term.

Regional impacts: Digital provisions are cross-cutting: all parts of the United Kingdom have the opportunity to benefit from the reduction in barriers in this area.

49 ONS, All data related to Trade in services by modes of supply, United Kingdom: 2019

ONS, Modes of Supply data is experimental, and methodology used to compile the data are subject to future improvements. Total services exports are calculated by the total of mode 1, mode 2 and mode 4 (exclude mode 3). Caution is advised in interpreting this data. Small discrepancies exist between total of mode 1, 2 and 4 and 'United Kingdom trade in services by partner country' totals.

50 OECD, 'The Impact of digitisation on trade', available at https://www.oecd.org/trade/topics/digital-trade/.

51 World Economic Forum (2017) 'Paperless Trading: How Does It Impact the Trade System'

52 USITC (2019) 'United States-Mexico-Canada Agreement: Likely impact on the U.S. Economy and Specific Industry Sectors.

53 Koski (2011) 'Does Marginal Cost Pricing of Public Sector Information Spur Firm Growth?'

54 Duval et al. (2018) 'Impact of implementation of digital trade facilitation on trade costs'

World Economic Forum (2017) 'Making Deals in Cyberspace: What's the Problem?'

4.4 Government procurement

Government procurement is about government authorities buying goods, works (such as construction) or services from private companies.[55] According to the OECD, government procurement can often favour local suppliers in the domestic market. While aimed at boosting the domestic economy, in practice, this approach can introduce market distortions that limit choices, increase prices, and undermine economic efficiency.[56]

Opening government procurement markets can therefore be beneficial for many reasons including:

- increases legally guaranteed market access opportunities for suppliers in overseas markets
- competition between private companies increases a government's chances of getting better value for money and makes the use of government resources more efficient.
- making the application process more transparent helps to fight corrupt practices
- it increases legal certainty[57]

The United Kingdom, Norway, Iceland, and Liechtenstein are members of the WTO Agreement on government Procurement (GPA) which provides enforceable rules and standards for a transparent and non-discriminatory framework on government procurement. To facilitate trade, the Agreement builds on the commitments in the GPA. The Agreement:

- ensures that the United Kingdom can maintain a separate and independent procurement regime and will enable the Government to enact reform of our system
- provides for a transparent and non-discriminatory framework of rules for trade in government procurement. These rules are based on the GPA, with some precedented additions for covered procurement, including the use of electronic means in procurement, electronic publication of notices, environmental, social and labour considerations, and domestic review procedures

The United Kingdom, Norway, Iceland, and Liechtenstein have also agreed an **extension of market access coverage beyond the GPA**. This includes: the gas and heat distribution sector; private utilities that act as a monopoly; and a range of additional services in the hospitality, telecoms, real estate, education, and other business sectors. This will provide businesses with additional opportunities and will benefit contracting authorities through increased competition, creating better value for money for the taxpayer.

Consumer impacts: According to the OECD, increased competition from foreign suppliers for government procurement contracts can put downward pressure on costs for goods and services, giving taxpayers value for money. In addition, it can provide access to goods and services that can improve the quality of government services, all the while encouraging better allocation of resources across the economy.[58] The provisions in the Agreement are intended to reduce the cost associated with trading and to increase competition. As noted above, this could mean lower prices for United Kingdom consumers if these cost savings are transferred over to consumers as well as potential improved quality of goods and services provision for United Kingdom consumers.

Business impacts: The value of additional procurement opportunities is estimated at approximately £200 million per annum.[59] However, the direct benefit to the United Kingdom is likely to be significantly lower than this figure, as United Kingdom businesses will only be awarded a proportion of these additional contracts. United Kingdom suppliers could also benefit from improved market access terms due to the clear and enforceable standards that have been agreed which ensure the procurement is simple, fair, open, transparent, and accessible.

Some domestic businesses may experience greater competition from foreign bidders due to reciprocal enhanced access to the United Kingdom's procurement markets compared to the baseline of the GPA. However, evidence shows that competition from trade can promote business innovation and growth.[60]

Regional impacts: Government procurement provisions are cross-cutting, all parts of the United Kingdom have the opportunity to benefit additional from additional market access.

55 European commission (Public procurement). https://ec.europa.eu/trade/policy/accessing-markets/public-procurement/index_en.htm

56 OECD The role of government procurement in international trade https://www.oecd.org/trade/topics/government-procurement/

57 European commission (Public procurement). https://ec.europa.eu/trade/policy/accessing-markets/public-procurement/index_en.htm

58 OECD The role of government procurement in international trade https://www.oecd.org/trade/topics/government-procurement/

59 This is an indicative estimate only. The estimate has been derived using 2018 and 2019 publicly available contract award notice data, sourced from the Tenders Electronic Database (TED). This estimate encompasses the value of the Agreement relating to additional market access in services and utilities. Works concessions access has not been included due to missing variables in the data. The text of the Agreement has been applied to the data as accurately as possible, but the lack of all necessary variables and the use of raw data means that this is an indicative estimate only.

60 CMA (2015) Productivity and competition: A summary of the evidence.

Box 2: Consumers, businesses, and regional impacts

Impacts on businesses: Many of the provisions across the Agreement create opportunities for businesses to grow and expand their exports and to lower the cost of imports, by reducing tariff and non-tariff regulatory barriers to trade with Norway, Iceland and Liechtenstein

For example, total potential annual tariff reductions on United Kingdom exports to Norway is estimated to be around **£4.1 to 8.1 million**. Businesses importing goods from Norway could directly benefit from lower tariffs and an increase in the variety of imported inputs to production and final goods from these countries. United Kingdom businesses could face annual tariff reductions from the liberalisation of intermediate goods imports (specifically fish feed) from Norway of around **£78,000** annually. Greater access to global supply chains are an important source and driver of competitive advantage for businesses.[61]

Some businesses may expand, but some businesses may be adversely affected by the increased competition as trade liberalisation could result in:

- **business growth and exports growth –** the measures negotiated in the Agreement, particularly those measures which reduce the upfront fixed costs associated with exporting such as commitments to simplify customs procedures would be expected to incentivise firms that do not currently export to these countries
- **growth in imports and productivity –** the Agreement is expected to benefit businesses by expanding access to cheaper and increased varieties of imported inputs
- **imports and increased competition –** some businesses may experience greater competition from imports from firms in Norway, Iceland and Liechtenstein. The evidence also shows that competition from trade can promote business innovation and growth[62]

The impacts of the Agreement are expected to be be more important for specific sectors, for example where businesses benefit from the opportunities of specific provisions, than at the macroeconomic level.

Impacts on consumers: The extent to which domestic businesses or consumers will benefit from the reduction in tariffs in the Agreement's tariff schedule will depend on the rate of "pass through" of lower import costs from the importing business to the end consumer.[63] Consumers can benefit both from:

- tariff reductions on final consumer goods (goods that are imported for sale in the United Kingdom without processing or modification for household use)
- tariff reductions on the intermediate goods that are passed onto the consumer in the longer term (materials that are used to produced final consumer goods)

However, not all of the tariff reductions will pass through into consumer prices as some businesses may absorb the benefit from the reduced tariff cost on intermediate goods. Calculated in this way, consumer savings when importing final goods are equivalent to the reduction in tariff revenues accruing to the United Kingdom Exchequer. Compared to the Agreement on Trade in Goods, cost savings due to tariff liberalisation on potential final goods imports from Norway are expected to be **£1.2 to 2.9 million** annually.

Impacts on Parts of the United Kingdom: The international evidence suggests that trade agreements and trade liberalisation more generally have the potential to affect regions within an economy differently.[64] This is primarily because trade greements affect sectors differently and the sectoral composition of output and employment varies across regions.

The long run impact of increased trade liberalisation on regions is subject to uncertainty due to the mobility of firms across regions. Evidence shows businesses in similar fields tend to concentrate in a particular region as this may generate knowledge spill overs or easier access to inputs and workers. For example, the concentration of car production in the Midlands or the North East of England. Reduction in trade costs could further incentivise this type of local concentration of businesses[65]. Regional comparative advantages can change significantly over time resulting in changes to the sector make-up of different regions. This means that the location of production for various sectors may evolve significantly over time.

Under this Agreement, all parts of the United Kingdom will have the opportunity to benefit from the liberalisation of goods and services.

61 USITC (2019), Global Value Chain Analysis: Concepts and Approaches.

62 CMA (2015) Productivity and competition: A summary of the evidence.

63 It is generally accepted that importers bear the costs of tariffs. In some instances, the exporting business may absorb the cost of the tariff, for example when there is a considerable domestic supply of a product, foreign firms may be forced to absorb tariff costs in order to remain competitive in the market or may not trade at all.

64 See, for example: 'Making Trade Work for All' (OECD 2017) and 'Making Trade an Engine of Growth for All' (IMF/World Bank/WTO 2017) for an overview of the international evidence.

65 Winners and losers from international trade: what do we know and what are the policy implications, UKTPO (2019).

4.5 Fisheries

The United Kingdom is a large importer of fish and seafood from Norway. In 2019, total trade between the United Kingdom and Norway in fish and crustaceans, molluscs and other aquatic invertebrates accounted for £139.2 million, with £137.5 million of this being in United Kingdom imports.[66] Around 26,900 people in the United Kingdom are employed in fishing and aquaculture across over 7,000 businesses in 2019.[67]

The Agreement will reduce tariffs for fish and seafood related products, specifically:

- **lower import and export tariffs for fish feed** – the Agreement will eliminate Norway's tariffs on United Kingdom fish feed exports (the tariff on the main fish feed line is approximately 10.5%). United Kingdom imports on some similar fish feedlines will also become duty free (reduced from a tariff of 19GBP / 1000kg)
- **lower United Kingdom import tariffs on shrimp, prawn, and certain other fish** – United Kingdom's current tariffs on a number of seafood lines will be eliminated for Norway exporters, including shrimp and prawns (which currently face tariffs of between 7.5 to 20%)

Consumer impacts: The Agreement aims to benefit United Kingdom consumers through increased consumer choice, better product quality and lower prices for imported products. The majority of the estimated duty reductions on fisheries imports fall on final goods, meaning consumer prices on fish and seafood products imported from Norway could be expected to fall. Compared to the Agreement on Trade in Goods, the potential annual tariff reductions on final consumer seafood imports from Norway are estimated to be £1.2 to 2.9 million.[68]

Business impacts: United Kingdom businesses importing from Norway could benefit from reductions in tariffs, which could in turn be passed onto supply chains and/or United Kingdom consumers. In particular, the United Kingdom's fish processing industry could benefit from the liberalisation of prawn and shrimp imports from Norway. Compared to the Agreement on Trade in Goods[69]:

- United Kingdom importers of **various seafood products** from Norway could benefit from reductions in tariffs of between £1.2 and £2.9 million per annum. The majority of the estimated tariff reductions are made up of reductions on shrimp and prawn lines (worth between £1.0 and 2.7 million)
- United Kingdom importers of **fish feed** from Norway could benefit from annual tariff reductions of £76,000
- United Kingdom exporters of **fish feed** to Norway could benefit from tariff reductions of between £4.1 to 8.1 million per annum. The United Kingdom accounted for 34% of Norway's world imports of fish feed on average over 2017 to 19.[70] Lowering tariffs on fish feed could help support export growth to this market

Regional impacts: The liberalisation of import tariffs on shrimps, prawns, and certain whitefish could help support the United Kingdom's fish processing sector. This sector accounted for around 18,000 jobs across the United Kingdom in 2020 (with Scotland, East Yorkshire, and Northern Lincolnshire accounting for almost three quarters of these jobs).[71] The elimination of tariffs on fish feed to Norway is an important opportunity for United Kingdom fish feed exporters, many based in Scotland, to export tariff free to Norway. The elimination of tariffs on fish feed from Norway could also result in lower import costs for businesses that import this product in the United Kingdom. In 2019, the purchase of fish feed was the largest category of external expenditure in the aquaculture sector in Scotland, accounting for £290 million in spending.[72]

4.6 Dairy

In 2019, the United Kingdom exported £1.4 million worth of dairy goods to Norway and imported £3.9 million worth of dairy goods from Norway.[73] In 2019, over 15,000 businesses employed over 25,000 people in the manufacture or wholesale of dairy products.[74]

The Agreement reduces tariffs and increases market access for some dairy products, specifically:

66 HMRC Overseas trade in goods statistics, March 2021. Calculated using HS2 codes for Fish and aquatic invertebrates, 03. For reference, in 2020, total trade between the United Kingdom and Norway in fish and crustaceans, molluscs and other aquatic invertebrates accounted for £129.7 million, with £133.4 million of this being in United Kingdom imports.

67 Employment: ONS Business Register and Employment Survey (2019), SIC codes used: 3 (Fishing and aquaculture) and 102 (Processing and preserving of fish; crustaceans and molluscs) used to calculate.

Businesses: ONS United Kingdom business; activity, size and location (2020). SIC codes used: 3 (Fishing and aquaculture), 1020 (Processing and preserving of fish; crustaceans and molluscs), 4638 (Wholesale of other food; including fish; crustaceans and molluscs) and 4723 (Retail sale of fish; crustaceans and molluscs in specialised stores).

68 Based on 2017 to 19 average trade flows. Ranges have been provided to reflect uncertainty regarding final end-use of export. Further detail provided in annex B.

69 Tariff reductions are based on 2017 to 2019 trade flows. Ranges have been provided to reflect uncertainty regarding final end-use of exports or the value of trade at the CN10 level. Further detail provided in annex B.

70 ITC Trade Map, product line 23099040

71 Seafish: Seafood processing industry performance data: 2012-2020. https://issuu.com/seafishuk/docs/seafood_processing_industry_performance_data_2021

72 Estimation of the Wider Economic Impacts of the Aquaculture Sector In Scotland, Biggar Economics for Marine Scotland, 2020

73 HMRC Overseas trade in goods statistics, March 2021. Dairy trade calculated using HS2 code 04 – Dairy and eggs. For reference, in 2020, the United Kingdom exported £1.5 million worth of dairy goods to Norway and imported £3.6 million worth of dairy goods from Norway.

74 Employment: ONS Business Register and Employment Survey (2019), SIC codes used: 105 (Manufacture of dairy products). Businesses: ONS United Kingdom business; activity, size and location (2020). SIC codes used: 1051 (Operation of dairies and cheese making and Manufacture of ice cream), 1052 (Manufacture of ice cream), 01410 (Raising of dairy cattle), 46330 (Wholesale of dairy products; eggs and edible oils and fats).

- **reduced Norway tariffs on 4 key hard cheeses – **exporters of West Country Farmhouse Cheddar, Orkney Scottish Island Cheddar, Traditional Welsh Caerphilly, and Yorkshire Wensleydale could see their tariff reduced from 277% to a lower specific duty of approximately £2.30/kg when exporting to Norway.These four premium domestic cheeses will have special access to the Norwegian market alongside a handful of European cheeses like Gruyere and Parmesan.[75] All United Kingdom cheeses will continue to have access to a duty-free 299 tonne quota which is for exclusive United Kingdom use, but these four United Kingdom hard cheeses will benefit from an improved out of quota tariff rate
- **new TRQ for United Kingdom egg exports to Norway –** a new tariff free volume for 48 tonnes of United Kingdom egg exports will be introduced. Without this quota, egg exports would face a tariff of approximately 272%

Consumer impacts: The liberalisation of dairy products outlined is not expected to directly affect United Kingdom consumers given that they involve the liberalisation of United Kingdom exports rather than United Kingdom imports.

Business impacts: The provisions of the Agreement aim to create new opportunities for businesses to grow and expand their exports and to lower the cost of imports. The Agreement improves market access through reduced tariffs or new TRQs for a range of dairy products such as cheese and eggs. This could increase the competitiveness of United Kingdom businesses, and promote trade between the United Kingdom and Norway.

- United Kingdom exporters of **West Country Farmhouse Cheddar, Orkney Scottish Island Cheddar, Traditional Welsh Caerphilly, and Yorkshire Wensleydale** could see their tariff reduced from 277% to a lower specific duty of 27.15 NOK/kg when exporting to Norway (equivalent to around £2.30/kg). Norway imported around £86.9 million worth of cheese and curd from the world on average over 2017 to 2019. Norway's imports of cheese and curd from the United Kingdom made up around 2.4% of total cheese imports from the world over the same period; the reductions in tariffs could help support export growth to this market [76]
- United Kingdom exporters of **eggs** to Norway will be able to export more due to the new duty-free quota access. Based on 2017 to 2019 average trade flows, the value of exports on lines covered by the additional TRQs is worth around £87,000

Regional impacts: The dairy products that are expected to benefit from this Agreement are manufactured in many rural areas of the United Kingdom. The four hard cheeses which could benefit from reduced tariffs are produced in different parts of the United Kingdom. Cheese continues to be an important export for some rural areas. Lower tariffs and improved market access could enhance the competitiveness or raise the profitability of producers in these areas when exporting to Norway.

4.7 Meat

In 2019, United Kingdom-Norway trade in Meat and edible offal was worth £0.9 million with United Kingdom exports to Norway making up the majority of this trade (99.2%).[77] In 2019 in the United Kingdom, just over 88,000 people were employed in the Meat industry by just under 52,000 businesses.[78]

The Agreement provides further market access opportunities for United Kingdom exporters of meat products including:

- **new TRQs for United Kingdom pork exports to Norway –** 470 tonnes of different types of pork meat will be included in a TRQ for exports to Norway (pork meat, pork belly, pork liver, sausages, hams and bacon crisp). Without this quota United Kingdom pork exports could face tariffs of between 23% to 201% across the 'meat of swine' and 'bellies of swine' TRQs
- **new TRQs for United Kingdom poultry exports to Norway –** 158 tonnes of poultry for Norway. Without this quota, United Kingdom poultry exports could face tariffs of between 103% to 240% across the meat of fowls TRQ

Consumer impacts: The liberalisation of meat products is not expected to directly affect United Kingdom consumers given that the Agreement has resulted in the liberalisation of United Kingdom exports rather than United Kingdom imports.

Business impacts: The recent value of United Kingdom exports in pork and poultry to Norway have not been significant based on 2017 to 2019 average trade flows. However, United Kingdom businesses who export pork and poultry will be able to export more of their products to Norway as a result of the new duty free quota access if they choose to. Norway imported around £2.2 million and £2.3 million worth of pig meat and poultry from the world based on 2017 to 2019 average trade flows.[79]

Regional impacts: farmers from across the United Kingdom will be able to export more pork, and poultry to Norway, helping to promote the economic growth of rural regions.

75 Norwegian Krone value converted to British pound by taking Bank of England daily spot exchange rate for 29/06/2021.

76 ITC Trade Map, product code 0406

77 HMRC Overseas trade in goods statistics, March 2021. Meat trade calculated using HS2 code 02 – Meat and edible meat offal. For reference, in 2020, United Kingdom-Norway trade in Meat and edible offal was worth £0.4 million with United Kingdom exports to Norway making up the majority of this trade (97.0%).

78 Employment: ONS Business Register and Employment Survey (2019), SIC codes used: 101 (Processing and preserving of meat and production of meat products) used to calculate. Businesses: ONS United Kingdom business; activity, size and location (2020). SIC codes used: 0142, 0145, 0146, 0147, 0149, (which cover raising of sheep, goats, cattle, buffaloes, swine/pigs, poultry, other animals), 0162 (Support activities for animal production), 1012 (Processing and preserving of poultry meat), 1013 (Production of meat and poultry meat products), 1011 (Processing and preserving of meat), 4632 and 4722 (which cover wholesale and retail sale of meat and meat products).

79 ITC Trade Map, product code 0203 Meat of swine and product code 0207 Meat and edible offal of fowls

5. Wider Impacts

5.1 Small and Medium sized businesses (SMEs)

Many of the provisions in the Agreement create opportunities for SMEs to grow and expand their exports and to lower the cost of imports, by reducing tariff and non-tariff regulatory barriers to trade with Norway, Iceland, and Liechtenstein.

There are around 6 million SMEs in the United Kingdom and they account for more than half (60.7%) of the employment and around half (52.2%) of the turnover in the United Kingdom at the start of 2020. SMEs account for a large majority of businesses in terms of both domestic markets and exports to foreign markets. At the start of 2020, SMEs made up more than 99% of United Kingdom businesses and represented 98.5% of all United Kingdom businesses exporting goods and services in 2018.[80]

Of the companies exporting goods to Norway in 2019, 86.9% (or around 11,400) were SMEs and exported around 41.4% of the United Kingdom's export value in goods to Norway. Additionally, of those importing goods from Norway, 77.9% (or 3,100) were SMEs and imported around 10.1% of the United Kingdom's import value in goods to Norway.[81]

SMEs generally operate at a small scale and therefore tend to face higher trading costs relative to output and can be disproportionately affected by trade barriers compared to larger firms.[82]

The Agreement contains a dedicated SME Chapter that ensures that United Kingdom SMEs are provided with the information necessary to seize the opportunities of exporting to Norway, Iceland, and Liechtenstein. The SME Chapter commits the United Kingdom and Norway, Iceland, and Liechtenstein to ensuring that SMEs have easy online access to all the information they need to trade. In addition, the Agreement states that a central point of contact will be established to facilitate government-to-government cooperation with Norway, Iceland, and Liechtenstein on issues specifically relating to SME trade. The objective of the Chapter is to reduce trade barriers and information gaps which can be particular obstacles to trade for SMEs.

The Customs and Trade Facilitation Chapter provides commitments to ensure border processes are quicker and easier to navigate in Norway and Iceland, something that is particularly important for SMEs where time and cost can impact the viability of international trade. There are commitments limiting border handling times to 48 hours, promoting electronic customs procedures and providing that customs procedures are published and easily accessible to traders. There are also provisions to ensure traders have the ability to review customs decisions and commitments protecting confidential trader information.

Impacts: The Agreement liberalises trade across goods and services. SMEs are present in all sectors of the economy, though are relatively less concentrated in areas such as agriculture and relatively more concentrated within services. As such, SMEs could be more likely to be positively or negatively affected from the liberalisation of services as a result of the Agreement. The liberalisation in agriculture (fisheries, dairy and meat sectoral impacts) where SMEs are relatively less concentrated does however also offer an opportunity for SMEs looking to trade and expand but may also result in increased foreign competition for this sector.

Many of the provisions in the Agreement are aimed at helping businesses to continue or enhance their exports and to lower the cost of imports, by reducing tariff and non-tariff regulatory barriers to trade with Norway, Iceland, and Liechtenstein. SMEs that currently export to Norway, Iceland, and Liechtenstein could benefit from: the legal certainty regarding continued trade facilitation, the potential growth in exports from becoming more price competitive and having more efficient market access into these countries. Provisions enhancing transparency and providing better information for SMEs also aim to continue to facilitate trade and help to enable new businesses to enter the market.

Some SMEs may experience greater competition from imports from exporters in Norway, Iceland, and Liechtenstein. The evidence shows that competition from trade can promote business innovation and growth.[83] There may be costs associated with

80 BEIS, Business population estimates (2020)

ONS Annual Business Survey (2019)

81 HMRC Trade in Goods by Business Characteristics (2019).

82 WTO (2016), 'World Trade Report 2016, Levelling the trading field for SMEs

https://www.wto.org/english/res_e/booksp_e/world_trade_report16_e.pdf

OECD (2019), 'Helping SMEs internationalise through trade facilitation' https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/TC/WP(2018)24/FINALanddocLanguage=En

WTO (2016), 'World Trade Report 2016, Levelling the trading field for SMEs

https://www.wto.org/english/res_e/booksp_e/world_trade_report16_e.pdf

83 CMA (2015) Productivity and competition: A summary of the evidence.

ensuring that the necessary information to facilitate trade and investment is made publicly available (for example uploading relevant web content). These costs are unlikely to disproportionality affect SMEs as they will not be directly incurred by SMEs but rather by the relevant government. In addition, these costs are not expected to be passed onto consumers. The benefits associated with reducing some of the key barriers that SMEs face such as information failures and the costs associated with complex customs/disputes procedures are likely to outweigh these costs. Given the scale of liberalisation across goods and services as well as the longstanding trading relationship between the United Kingdom and these countries, the incremental costs and benefits to SMEs may not be significant.

5.2 Environment

The Agreement advances the United Kingdom's climate and environmental ambitions and supports the United Kingdom's delivery of its legally binding emissions targets, including Net Zero. The environmental provisions included in the Agreement are intended to help improve the environmental performance of all parties of the Agreement. Nothing in the Agreement prevents the United Kingdom from continuing to uphold its high environmental standards nor to implement policy in support of our climate change objectives.

The United Kingdom, Norway, Iceland, and Liechtenstein are parties to a range of Multilateral Environmental Agreements (MEAs) and have domestic legislation in place to protect the environment.[84] FTAs have the potential to impact the environment, by changing patterns of production, the types of goods and services that are traded and the commitments made by countries in respect of environmental policies and outcomes.

The aim of environmental and climate provisions in the Agreement is to strengthen trade relations and cooperation between the United Kingdom, Norway, Iceland, and Liechtenstein. The Trade and Sustainable Development Chapter aims to promote sustainable development, including economic development, social development, and environmental protection and to ensure that levels of environmental and climate protection remain high. It should be noted that the provisions in the Agreement do not attempt to harmonise environment standards.

The Trade and Sustainable Development Chapter includes reciprocal commitments not to relax or lower, waive, or fail to enforce Parties' levels of environmental (including climate) protection in order to encourage trade or investment. It also protects the 'right to regulate', giving both Parties the freedom to set their own environmental and climate policies and priorities to help them achieve their ambitious domestic objectives in these areas.

This Chapter reaffirms the Parties' existing commitments to a range of international conventions and other commitments in the areas of environment, and climate, in a way that is standard in FTAs. Examples include:

- Agreeing to effectively implement MEAs, to which the United Kingdom is a party. MEAs form the overarching international legal basis for global efforts to address particular environmental issues and play an important role in achieving sustainable development at an international level. They cover a broad range of environmental issues including biodiversity and nature protection, protection of the ozone layer, management of chemicals and waste, and transboundary water and air pollution
- Agreeing to effectively implement the Paris Agreement and cut greenhouse gas emissions and reaffirming Parties' long-term climate objectives

Trade and Sustainable Development Chapter also provides for a range of cooperative activities in the areas of environment and climate and promotes trade and investment in goods and services that contribute to sustainable development, as well as promoting the deployment of renewable energy and development of decarbonisation and carbon capture usage and storage (CCUS) technologies.

Overall impact on the environment: The environmental provisions included in the Agreement are intended to help improve the environmental performance of all Parties. Although some provisions may potentially increase trade and output, any increases are not expected to be significant given the scale of liberalisation across goods and services as well as the longstanding trading relationship between the United Kingdom and Norway, Iceland, and Liechtenstein.

As a result, the Agreement is not expected to have a significant impact on the United Kingdom's greenhouse gas emissions (CO2 and Non-CO2), trade-related transport emissions and wider environmental impacts such as air quality, biodiversity, forestry, waste, water use/quality and fisheries.[85] The provisions in the Agreement are not expected to affect the United Kingdom's ability to reach its legally binding emissions targets, including Net Zero. Annex E provides further detail on these areas.

84 United Nations Information Portal on Multilateral Environmental Agreements https://www.informea.org/en/countries

85 When compared against the baseline of trading with Norway and Iceland under the 2020 goods Agreement and under MFN terms with Liechtenstein

5.3 Food safety and animal welfare

The Agreement includes a Sanitary and Phytosanitary Measures (SPS) Chapter which ensures that the United Kingdom, Norway and Iceland can maintain fully independent SPS rules to protect human, animal and plant life and health. The Agreement also preserves each Party's right to independently regulate, while not creating unjustified barriers to trade. This is standard practice with FTAs.

The SPS Chapter also includes commitments on regionalisation, which would enable trade between the United Kingdom, Norway and Iceland disease-free and pest-free areas to continue in case of an outbreak. Together with provisions on rapid notification and emergency measures, this will help all Parties to move quickly to protect their consumers, animals and plants during disease and pest outbreaks and food and feed safety incidents, while minimising the trade impacts.

The Agreement also contains provisions that commit all parties to cooperation on matters of animal welfare, and to the exchange of technical information and best practices for providing safe and high-quality foods for consumers in the United Kingdom, Norway, and Iceland. The Agreement is more comprehensive than the Agreement on Trade in Goods in that it contains specific provisions on cooperation on anti-microbial resistance, animal welfare and sustainable food production methods and food systems.

Impacts: The Agreement does not prevent the United Kingdom from continuing to uphold its high environmental, food safety and animal welfare standards. Without exception, imports into the United Kingdom will continue to meet the United Kingdom's stringent food safety standards. As such, no significant impacts on consumers and producers relating to food safety and animal welfare are expected as a result of the Agreement.

5.4 Labour market and protected characteristics

The United Kingdom, Norway, Iceland, and Liechtenstein all have high labour standards. The United Kingdom, Norway and Iceland have ratified all 8 of the International Labour Organisation's (ILO) fundamental conventions.[86] Liechtenstein is not a member of the ILO and therefore has not ratified any of these conventions.

The aim of the labour provisions in the Agreement is to strengthen trade relations and cooperation between the United Kingdom, Norway, Iceland, and Liechtenstein in ways that promote sustainable development, including economic development and social development. The provisions do not attempt to harmonise labour standards.

The provisions in the Agreement recognise the importance of promoting high labour standards. In particular, the provisions:

- commit the United Kingdom and Norway, Iceland, and Liechtenstein to continue aligning their domestic legislation to international principles for fundamental rights at work
- ensure that no competitive advantage is gained by the United Kingdom, Norway, Iceland or Liechtenstein by lowering labour standards or failing to enforce these standards.
- ensure that all parties who are members of the ILO reaffirm their obligations under the ILO
- do not prescribe how policy should be designed
- support the goals of eliminating discrimination in employment and occupation, and of promoting gender equality in relation to trade and the workplace

Overall impact on the labour market: The Agreement does not prevent Her Majesty's Government from continuing to ensure labour standards provide for a high level of protection. There may be wider benefits for workers through potential higher incomes and enhanced opportunities for employment due to the liberalisation of trade. Some workers may incur short-term adjustment costs and periods of transitional unemployment due to the potential reallocation of employment across sectors. However, given the relatively limited scale of liberalisation across goods and services as well as the longstanding trading relationship between the United Kingdom and these countries, the scale of reallocation is expected to be small.[87]

Protected groups (in relation to age, sex, ethnicity, and disability) are not expected to be disproportionately negatively affected by the economic changes resulting from the Agreement given the scale of liberalisation across goods and services when compared against the baseline of the Agreement on Trade in Goods as well as the longstanding trading relationship between the United Kingdom and Norway, Iceland, and Lichtenstein. A number of cooperation activities have been agreed relating to women's economic empowerment which could lead to improved outcomes for women in trade over time.

86 ILO Normlex NORMLEX Information System on International Labour Standards https://ilo.org/dyn/normlex/en/

87 When compared against the baseline of trading with Norway and Iceland under the Agreement on Trade in Goods and under MFN terms with Liechtenstein.

5.5 Developing countries

FTAs can have spill over effects on third countries, particularly developing countries that receive preferential access to the United Kingdom for their goods exports. The decline in tariff barriers between the United Kingdom and Norway could change the relative cost of trade for other trading partners. This could result in countries reducing trade from one partner and increasing trade with another, relatively cheaper trading partner. Developing countries with a high share of trade with the United Kingdom and Norway in products that have been liberalised further as a result of the Agreement (such as fisheries, dairy and meat) relative to the Agreement on Trade in Goods would be most likely to be affected.

Impacts: Overall, the Agreement is not expected to result in any significant impacts on developing countries' trade or GDP given that the majority of trade in goods between the United Kingdom and Norway was already tariff free under the the Agreement on Trade in Goods.

6. Implementation costs

FTAs provide an incentive for businesses to trade under preferences to reduce the costs of trading. However, firms may incur one-off familiarisation costs and on-going costs administrative costs in doing so.

There could be one-off costs to firms, enforcers, and customs and government officials from reading and understanding the text of the Agreement. The cost associated with reading and understanding the text by customs and government officials are likely to be absorbed by existing resources. There could be one-off familiarisation costs for United Kingdom businesses associated with reading and understanding the treaty's provisions regarding proving goods are eligible for preferences, however these are not expected to be significant due to the longstanding trading relationship.

Businesses will need to follow administration procedures in order to trade under the Agreement preferences if they choose to, like accessing preferential (lower) tariffs which could result in additional on-going compliance costs. Compared to the Agreement on Trade in Goods, businesses may incur one-off familiarisation costs however firms are not expected to incur any significant additional costs associated with rules of origin.

Tariff Rate Quotas (TRQs) are two-tiered tariff systems which apply a lower in-quota tariff rate (IQTR) to the first Q units of imports of a certain good and a second higher out-quota tariff rate (OQTR) to all subsequent imports of this product. There are associated costs with any administration process, such as:

- the costs of getting informed
- paperwork and time involved in applying for a license
- costs of hedging in the event a business does not obtain a license
- costs of expediting imports if time is a factor in the decision-making process amongst other issues

Governments could also incur costs associated with the administration of the TRQ scheme.

Technical annexes

7. Annex A: Method for tariff analysis

7.1 Methodology for estimating tariff reductions

United Kingdom imports from Norway

The order of magnitude of potential tariff reductions for businesses and consumers importing goods from Norway are calculated using trade flow data in 2017 to 19 at the 8-digit product classification (HS2017) sourced from HMRC.

The HMRC data is aggregated into the UN's 'Broad Economic Categories' (BEC) via the conversion table developed by the UN. The BEC classification of goods is then assigned to the 2 basic kinds of domestic end-use categories as laid out in the System of National Accounts (SNA), namely – intermediate or final goods.[88]

Baseline duties: without the Agreement, Norwegian exports would face tariffs as agreed in the Agreement on Trade in Goods Agreement between the United Kingdom and Norway (included in the baseline of tariff analysis). To estimate the duties that would have been paid without an agreement, average 2017 to 2019 import trade values are multiplied with the corresponding tariff line under the Agreement on Trade in Goods.[89]

Preferential duties: the Agreement's tariff schedule has been used as the source of the preferential tariffs available to Norwegian exporters. Some of these preferential tariffs are staged over 3 or 5 years. As above, 2017 to 2019 average import trade values are multiplied by the final preferential rate at the end of the staging period.

To calculate the tariff reduction estimates, the preferential duties estimates are subtracted from the Agreement on Trade in Goods duties estimates.

It is important to note that reductions in tariff costs facing importers also reflect an equivalent reduction in government tariff revenues on these products, which may be offset by increased tax revenues from higher economic activity in the United Kingdom.

United Kingdom exports to Norway

The order of magnitude of potential tariff reductions for businesses exporting goods to Norway are calculated using 2017 to 2019 average import data from TradeMap at the 8-digit product classification (HS2017).

The data is aggregated into the UN's 'Broad Economic Categories' (BEC) via the conversion table developed by the UN. The BEC classification of goods is then assigned to the 2 basic kinds of domestic end-use categories as laid out in the System of National Accounts (SNA), namely – intermediate or final consumption goods. Before aggregation, the trade data is matched to corresponding data for applied tariffs in 2019 in Norway.

The scale of tariff liberalisation is calculated by multiplying the import values over the period with the corresponding tariffs.

Ranges have been provided for the potential tariff reductions on:

- **fish-feed exports to Norway** - to reflect uncertainty regarding the final end-use of these exports. Norway have agreed full liberalisation of animal feed CN8 codes if it is to be used for fish feed, but MFN if it is used for any other type of feed. Data on final end-use is not available therefore ranges have been constructed, the lower bound is based on trade on the one main fish feed line (2309.90.40) being liberalised and the upper bound is based on trade on all potential fish feed lines being liberalised
- **shrimp and prawn imports from Norway** - to reflect uncertainty regarding the value of trade at the CN10 level. Trade flows are only available at the CN8 level whereas tariff line information is available at the CN10 level. Ranges have been constructed based on the range of tariffs at the CN10 level (7.5% and 20.0%) and total trade flows across the affected lines at the CN8 level to obtain lower and upper bound estimates

88 See accompanying manual of the 5th revision of BEC https://unstats.un.org/unsd/trade/classifications/bec.asp. For the purposes of this analysis, goods that are allocated as "Capital Goods" are treated as "Intermediate", as they are likely to be purchased by businesses.

89 Where a preferential tariff arrangement was not identified on a line, United Kingdom/Norway/Iceland MFN was used.

7.2 Limitations

Following a similar approach widely applied in the literature, the calculations aim to provide an indication of the magnitude of direct reductions owing to tariff liberalisation. [90] The analysis is subject to several limitations including the following:

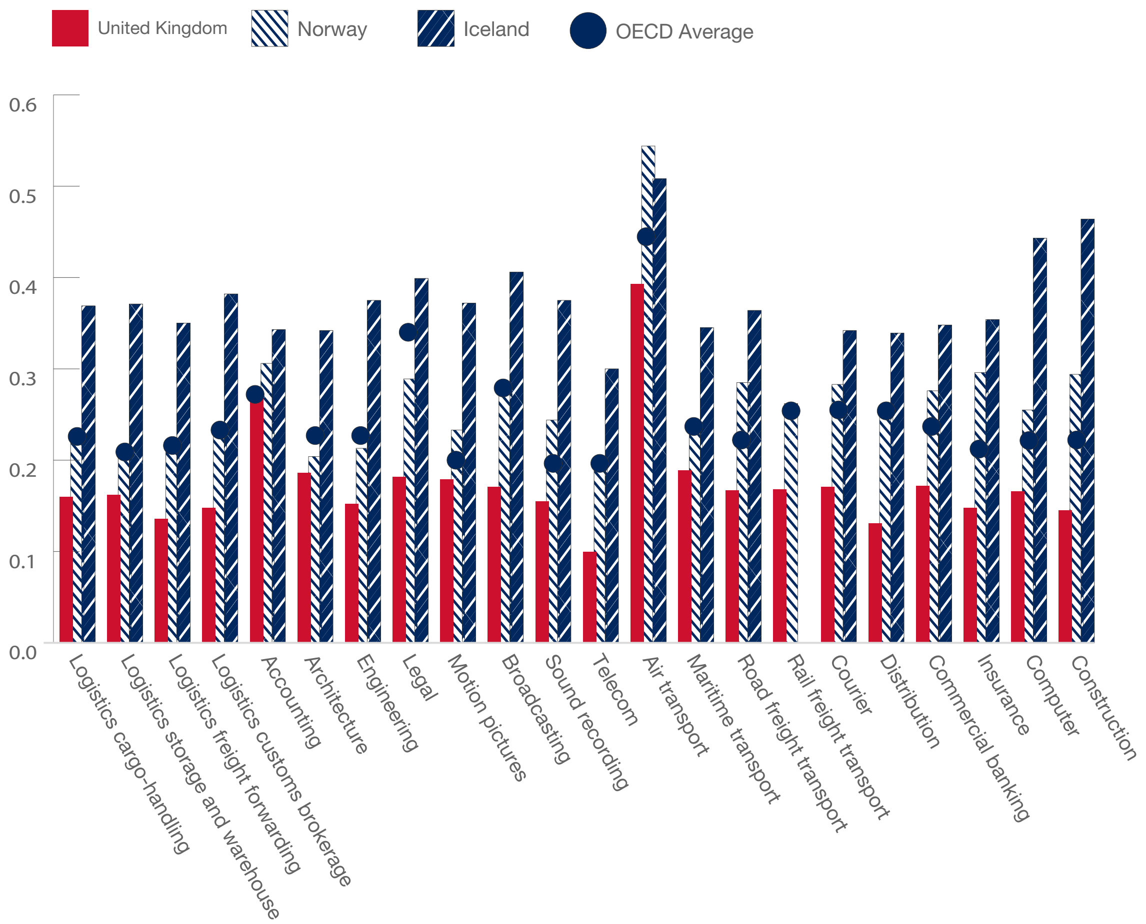
- the tariff reduction estimates are based upon current trade patterns and do not take into account the likely changes in trade patterns resulting from the price changes. Therefore, these estimates may understate the gains to United Kingdom businesses and consumers from reduced tariffs if trade were estimated to increase after price effects
- the proportion of the tariff reductions passed through to consumers is not known, some businesses may consume final goods or not fully adjust the prices of their products/services to United Kingdom consumers
- the tariff reductions on final consumer goods are estimated by mapping harmonised system classifications (HS) of goods imported from Norway into classifications of individual consumption by purpose (COICOP).
- the analysis is based on the United Kingdom's current tariff levels and does not take into account future changes to its MFN tariff levels
- it assumes the current pattern of trade (from the average of 2017 to 2019) is in line with the future trade patterns
- tariff gains from exports asks are mapped according to the export pattern. This assumes that any reduction on tariff gains would be a benefit to United Kingdom exporters. While United Kingdom exporters will gain from increased competitiveness from a reduction in partner country tariffs, the estimated gains from tariff differentials will be realised by firms and consumers in the partner country
- the estimated tariff reductions in this document assume that all bilateral trade in a liberalised tariff line is eligible for preferences and that all eligible trade makes use of those preferences and are therefore likely to be overestimated. In reality, the utilisation of preferences could be lower than 100%. For example, the average preference utilisation rate on imports across the EU continuity deals in 2019 is estimated to be 77% whilst it is estimated that 83% of imports made use of the EU-EEA preferential rates in 2019.
- the estimated tariff reductions presented are also likely to be overestimated as they do not take into account multilateral or plurilateral agreements or inward and outward processing (i.e., they do not factor in trade that claimed no duty relief)

90 For example, see, "Consumer benefits from EU trade liberalisation: How much did we save since the Uruguay Round?" Lucian Cernat, Daphne Gerard, Oscar Guinea and Lorenzo Isella – Chief Economist Note, DG Trade, Issue 1, February 2018.

8. Annex B: Services and digital barriers

Services – The OECD's Services Trade Restrictiveness Index (STRI) provides information on regulations that affect trade in services across 22 sectors. 0 represents a sector which is completely open to foreign service suppliers and 1 represents a sector which is completely closed. Iceland is the most restrictive of the United Kingdom, Norway and Iceland in all services sectors except Air Transport, where Norway is the most restrictive of the three countries.[91] The United Kingdom is the least restrictive of the three countries across all services sectors as shown in figure 7. As noted in section 4.1, Norway and Iceland's telecommunications sectors are relatively open but more restrictive than the United Kingdom and the OECD average. In 2020, Norway scored 0.2 and Iceland scored 0.3, while the United Kingdom scored 0.1, whilst the OECD average was 0.2 for telecommunications.[92]

Figure 7: United Kingdom, Norway, Iceland, and OECD Average Services Trade Restrictiveness Index (STRI)



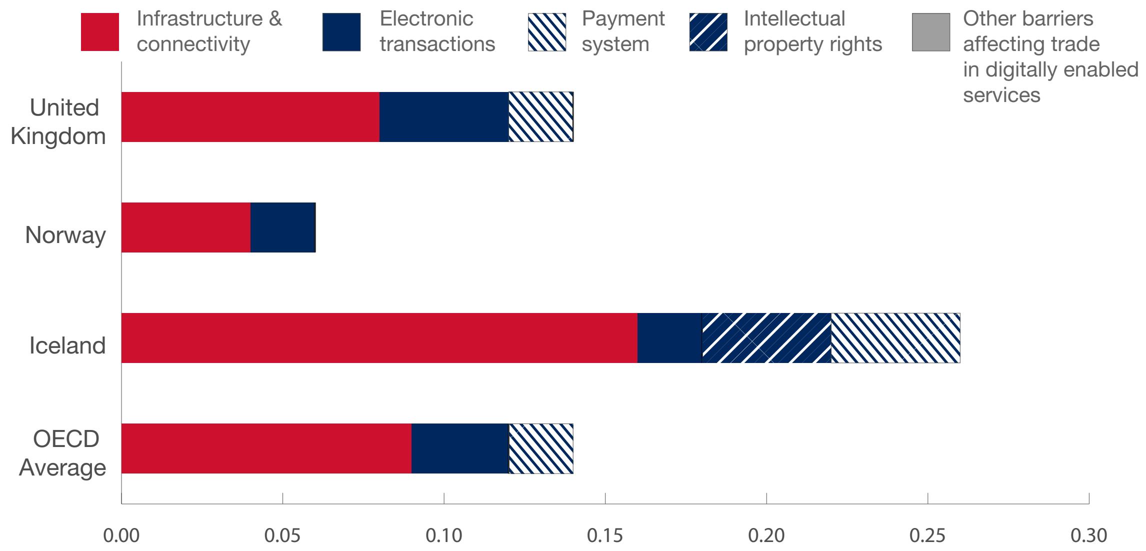
Source: OECD STRI, 2020 data

91 STRI score in Rail freight transport for Iceland is unavailable

92 OECD STRI (2021).

Digital – The OECD's Digital Services Trade Restrictiveness Index (Digital STRI) builds on the STRI by identifying cross-cutting barriers that affect all types of services traded digitally across five broad categories. Iceland is the most restrictive economy, with a score of 0.27, while the United Kingdom and Norway are less restrictive with scores of 0.14 and 0.06 respectively, both below the OECD average of 0.15 as shown in figure 8. As noted in section 4.3, the United Kingdom and Norway are among the most open countries for digitally delivered services according to this index ranking third and second respectively out of 38 OECD countries.[93]

Figure 8: 2020 OECD Digital STRI



Source: OECD Digital STRI, 2020 data

93 OECD Digital STRI, 2020 data

9. Annex C: Parts of the United Kingdom

United Kingdom nations trade a variety of goods with Norway and Iceland; this highlights the diversity in traded goods between different United Kingdom nations with Norway and Iceland as shows in tables 2 and 3. For example, some of the top exported goods by value to Iceland and Norway in 2019 from United Kingdom nations were road vehicles and industrial machinery. Some of the top imported goods by value from Iceland and Norway in 2019 to United Kingdom nations were related to petroleum and gas.[94]

Table 2: Percentage of nations' trade with Norway and Iceland in 2019

Nation	Percentage of nations' exports going to Iceland and Norway, %	Percentage of nations' imports going to Iceland and Norway, %
England	1.0%	2.3%
Scotland	2.7%	10.4%
Wales	0.6%	3.5%
Northern Ireland	0.4%	0.1%

Table 3: Top 3 United Kingdom goods exports and imports to and from Iceland and Norway by nation in 2019

Goods exported	Goods exported	Values, £ million (2019)	Goods imported	Values, £ million (2019)
England	Road vehicles (including air cushion vehicles)	£358.1	Petroleum, petroleum products and related materials	£5,319.5
	Other transport equipment	£245.5	Gas, natural and manufactured	£2,388.5
	General industrial machinery and eqp. and machine pt.n.e.s.	£196.6	Non-ferrous metals	£253.6
Scotland	General industrial machinery and eqp. and machine pt.n.e.s.	£156.0	Gas, natural and manufactured	£1,403.8
	Petroleum, petroleum products and related materials	£147.8	Petroleum, petroleum products and related materials	£210.5
	Other transport equipment	£89.8	Other transport equipment	£131.7
Wales	Iron and steel	£21.9	Petroleum, petroleum products and related materials	£527.7
	Power generating machinery and equipment	£14.8	Non-ferrous metals	£40.1
	Road vehicles (including air cushion vehicles)	£11.5	Other transport equipment	£14.3
Northern Ireland	Machinery specialized for particular industries	£10.0	Cork and wood manufactures (excluding furniture)	£1.8
	Road vehicles (including air cushion vehicles)	£7.2	Gas, natural and manufactured	£1.5
	Power generating machinery and equipment	£3.9	Crude fertilizers and crude minerals (exc fuels etc)	£0.8

HMRC, Regional trade statistics, 2019 data

94 HMRC, Regional trade statistics, 2019. Data on services not available.

10. Annex D: Small and Medium Businesses (SMEs)

The BEIS Business Population Estimates (BPE) show that the concentration of SMEs varies markedly across sectors of the economy.[95] The BPE data are classified according to the Standard Industrial Classifications (SIC). SMEs are present in all sectors of the economy, but four sectors ('construction', 'professional, scientific and technical activities', 'wholesale and retail trade; repair of motor vehicles and motorcycles' and 'administrative and support service activities') make up around half of the total number of domestic SMEs.

Table 4: SMEs across sectors by Number and Turnover

SIC 2007 Classification	Businesses	Employment	Turnover	Businesses	Employment	Turnover
Sections	Thousands	Thousands	Billions	%	%	%
Agriculture, Forestry and Fishing	155.3	441.0	42.7	2.6%	2.6%	1.9%
Mining and Quarrying; Electricity, Gas and Air Conditioning Supply; Water Supply; Sewerage, Waste Management and Remediation Activities	39.5	143.0	48.9	0.7%	0.8%	2.2%
Manufacturing	287.2	1542.0	203.7	4.8%	9.2%	9.0%
Construction	991.9	1858.0	259.2	16.6%	11.0%	11.4%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	551.9	2321.0	794.1	9.2%	13.8%	35.0%
Transportation and Storage	346.1	767.0	97.4	5.8%	4.6%	4.3%
Accommodation and Food Service Activities	222.4	1466.0	63.8	3.7%	8.7%	2.8%
Information and Communication	381.2	929.0	136.1	6.4%	5.5%	6.0%
Financial and Insurance Activities	91.8	329.0	0.0	1.5%	2.0%	0.0%
Real Estate Activities	126.8	399.0	50.6	2.1%	2.4%	2.2%
Professional, Scientific and Technical Activities	872.4	2068.0	239.7	14.6%	12.3%	10.6%
Administrative and Support Service Activities	525.3	1541.0	185.4	8.8%	9.2%	8.2%
Education	324.9	524.0	21.7	5.4%	3.1%	1.0%
Human Health and Social Work Activities	379.4	1273.0	61.1	6.4%	7.6%	2.7%
Arts, Entertainment and Recreation	312.2	559.0	35.6	5.2%	3.3%	1.6%
Other Service Activities	364.3	673.0	30.2	6.1%	4.0%	1.3%
Total	5972.7	16833.0	2270.2	100.0%	100.0%	100.0%

Source: DIT Internal Analysis of BEIS Business Population Estimates (2020). Note: No turnover data available for Financial or Insurance sectors.

95 BEIS, Business Population Estimates (BPE) combines a number of data sources on the business population (United Kingdom Business: Activity, Size and Location (ONS), Business Demography (ONS) and Small and Medium Enterprise Statistics (BEIS)) to generate holistic estimates for all active private sector businesses, including sole-traders and unregistered businesses See Economic and Labour Market Review (Vol. 5, No. 4) (ONS). Please note in the turnover data, there is no data for Financial Services and Insurance sectors.

11. Annex E: Environment

This Annex provides further information underpinning the summary of impacts outlined in Section 5.2 on the potential environmental impacts of the Agreement.

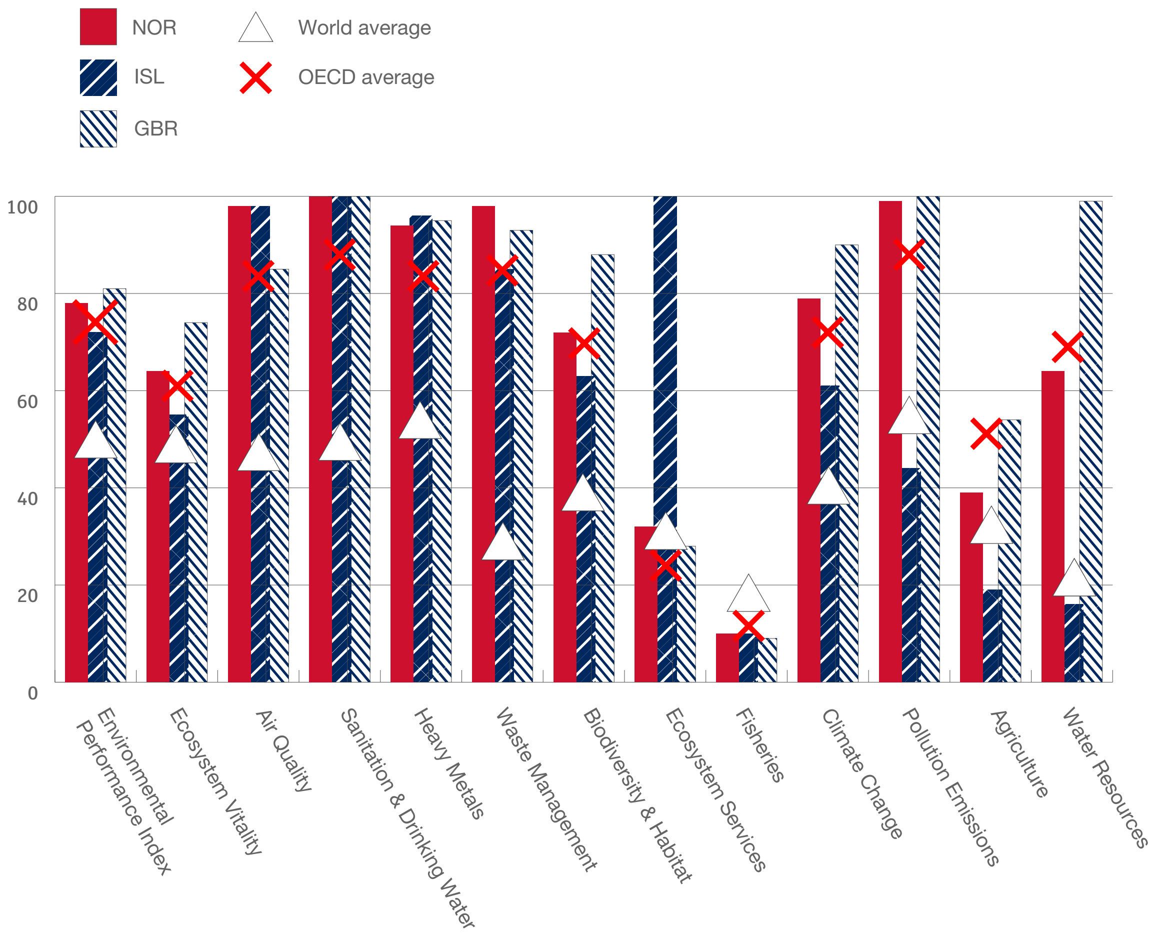
The Agreement is not expected to have significant impacts on greenhouse gas emissions (CO2 and Non-CO2), trade-related transport emissions and wider environmental impacts such as air quality, biodiversity, forestry, waste, water use/quality and fisheries.[96]

Assessing the impact of environmental provisions in FTAs is challenging. Empirical studies have not robustly concluded whether provisions in FTAs intended to protect the environment have had a significant effect.[97] This is particularly true when an agreement is between countries such as the United Kingdom and Norway, Iceland, and Liechtenstein, where high existing environmental standards are expected to already be enforced.

The Environmental Performance Index (EPI) ranks 180 countries on 32 performance indicators. It is an internationally comparable index of environmental variables which is used to outline each country's performance across a range of environmental measures.[98] The EPI score reflects how close countries are to the best environmental outcomes for a given measure – a score of 100 indicating a world leading performer.

The United Kingdom's total EPI score is 81 whereas Norway and Iceland scores are lower at 78 and 72 respectively. As set out in Figure 9, in general, the United Kingdom, Norway and Iceland have high environmental standards with their total EPI score higher than the OECD average (data for Liechtenstein is not available). The United Kingdom scores are lower than the OECD average in fisheries and ecosystem services. The data shows that Iceland's performance in water resources, pollution emissions, and agriculture is substantially lower than the OECD average, and Norway's performance in agriculture and water resources is notably lower than the OECD average.

Figure 9: Selected Environmental Performance Index Scores for the United Kingdom, Norway, Iceland, and Liechtenstein



Source Environmental Performance Index (EPI), 2020.

96 When compared against the baseline of trading with Norway and Iceland under the 2020 goods Agreement and under MFN terms with Liechtenstein

97 OECD (2018), "Assessing the Effectiveness of Environmental Provisions in Regional Trade Agreements". The OECD found a positive relationship between membership of regional trade Agreements and improved environmental quality for two out of three pollutants treated as a proxy for environmental quality. However, the extent to which environmental provisions specifically contributed to the improvement could not be concluded with statistical certainty.

98 Environmental Performance Index (EPI), 2020 https://epi.yale.edu/epi-results/2020/component/epi

All economic activity, including trade, has the potential to impact positively or negatively on the environment.

Production emissions impacts: FTAs can impact the environment by changing patterns or techniques of production, the types of goods and services that are traded and the commitments made by countries in respect of environmental policies and outcomes.

Indirect impacts on the environment may occur as enhanced trade induces the economy to grow (a 'scale' effect on emissions for example) and as economic activity shifts between sectors with different levels of emissions (a 'composition' effect). FTAs can also positively impact the environment as increased trade leads to the transfer of new, potentially more environmentally friendly, technologies and production methods (a 'technique' effect).

The Agreement liberalises trade in a number of agricultural sectors (for Norway only) and service sectors.[99] Agricultural sectors are currently relatively emissions intensive whilst many services sectors are relatively less emissions intensive.[100] The Agreement could increase trade and result in a shift towards agricultural sectors that are currently relatively more emissions intensive. The Agreement could also result in more environmentally friendly production methods and potential increased trade in low carbon goods due to potential knowledge spillovers from various cooperation initiatives (for example on decarbonisation technologies) and increased flexibility around labour mobility. It has not been possible to quantify these potential scale, composition and technique effects or the overall potential impact on the trade and output as a result of the Agreement. However, given the relative scale of liberalisation outlined in the previous sections on goods and services the overall impact on the environment as a result of any potential changes in productions emissions is not expected to be significant.

Transport emissions impacts: the impact on trade-related transport emissions is uncertain but potential impacts may result from the change to the volume of trade, the distance goods are transported, and the composition of goods traded. Transport emissions are driven by the weight of the products transported, rather than their value. Shifts in the value of traded goods from sectors with a low £ per kg ratio to those with a high £ per kg ratio could therefore reduce transport emissions. Shifts between sectors may also impact transport emissions by changing the overall proportion of goods that are travelling by sea and air freight. It has not been possible to quantify these potential impacts, however given the proximity of these countries and the existing levels of trade between these countries, any changes in transport emissions are not expected to be significant.

Net Zero impacts: The environmental provisions included in the Agreement are intended to help improve the environmental performance of all parties to the Agreement. Parties' right to regulate, important to deliver Net Zero, is also protected in the Agreement, for example through provisions in the Trade and Sustainable Development (TSD) Chapter. The provisions on climate also also reaffirm Parties' commitments to their long-term climate objectives, including Net Zero for the United Kingdom. The Agreement also contains provisions that could help facilitate and promote trade and investment in environmental goods and services, including those goods and services that could contribute to the growth of the low carbon economy. The Agreement specifies that Parties shall promote trade in goods relevant to climate change mitigation and adaptation and provides for cooperation on trade and investment in renewable energy technologies and energy efficient products.

There is no evidence to suggest that the Agreement will encumber the United Kingdom's ability to reach its legally-binding emissions targets. Although some provisions may potentially increase trade and output, any increases are not expected to be significant given the scale of liberalisation across goods and services as well as the longstanding trading relationship between the United Kingdom and these countries.

Air quality impacts: increasing trade generates a mixture of potential positive and negative effects on the environmental and natural resources of countries. On the one hand, an increase in global economic activity due to increased trade can raise the total amount of pollution and, consequently, create environmental damage.[101] On the other hand, higher incomes affect environmental quality positively. This means that trade and economic growth could give countries the means to clean the air or invest in less polluting technologies, provided they have effective institutions and regulation in place at the national level.[102] The Agreement could increase economic activity, which in turn could raise the total amount of pollution. However, the United Kingdom has effective institutions and regulations in place at the national level with extensive air quality monitoring systems as well as a history of regulating and improving air quality.[103] The commitments to cooperate on matters on environmental protection also have the potential to drive forward progress on air quality issues. Overall, it is not expected that there will be any significant negative impacts on United Kingdom air quality given the scale of

99 Agricultural sectors include forestry and fishing.

100 ONS, Atmospheric emissions: greenhouse gas emissions intensity by industry (2020). Provisional workbook. Thousand tonnes CO2 equivalent/£ million for 2018.https://www.ons.gov.uk/economy/environmentalaccounts/datasets/ukenvironmentalaccountsatmosphericemissionsgreenhousegasemissionsintensitybyeconomicsectorunitedkingdom

101 Frankel, J. (2009), Environmental Effects of International Trade, p.6. https://www.government.se/contentassets/006470cc2f544bd793924f11cad8f068/environmental-effects-of-international-trade

102 Frankel, J. (2009), Environmental Effects of International Trade, p.15. https://www.government.se/contentassets/006470cc2f544bd793924f11cad8f068/environmental-effects-of-international-trade

103 HMG, Clean air strategy (2019) https://www.gov.uk/government/publications/clean-air-strategy-2019

liberalisation outlined in previous sections and given that liberalisation has not focussed particularly on manufacturing and industry.

Biodiversity: The main drivers of biodiversity loss are land-use change, climate change, pollution, and invasive alien species. The Agreement has the potential to impact upon these drivers, through impacts on production levels and the sectoral composition of production resulting from more liberalised trade with Norway, Iceland, and Liechtenstein as well as potential changes to consumption patterns. It has not been possible to estimate the change in sectoral output as a result of the Agreement, however it is not expected to result in any significant negative impacts relative to the Agreement on Trade in Goods in effect.

Forestry: Forests play a key role in the balance of carbon in the atmosphere. Forestry in the United Kingdom is the largest source of carbon sequestration, removing 18 million tonnes of CO2e in 2017.[104] The Agreement could result in increased economic activity in both countries due to greater access to another market through more liberalised trade. This potential increased economic activity could result in environmental impacts on United Kingdom forestry through increased demand for land for agriculture (reducing the land available for afforestation). However, any potential increases in agricultural output may come from technological advances rather than an expansion of land area used. It has not been possible to estimate the change in sectoral output as a result of the Agreement. However, given the scale of liberalisation across goods and services, the Agreement it is not expected to result in any significant negative impacts relative to the Agreement on Trade in Goods.

In addition, as with air quality, the commitment to cooperate with the Norway, Iceland, and Liechtenstein states on these matters could drive forward positive change. Commitments in such international agreements regarding support and promotion of sustainable production of forest risk commodities and for parties to take measures to tackle illegal deforestation, set a good precedent.

Waste: Waste management covers the collection, transport, recovery (including sorting), and disposal of waste. The way waste is managed domestically is continually evolving as the United Kingdom moves towards a more circular economy where the United Kingdom recovers and regenerates products and materials where possible.

All parties have domestic regulation for waste for environmental and public health purposes, including requirements on the disposal of hazardous waste. In addition, all countries are also party to multilateral agreements, including the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.

It is not expected there will be any significant negative impacts on waste management given the longstanding trading relationship with these partners and the scale of liberalisation relative to the Agreement on Trade in Goods.

In the Agreement, all parties have agreed to cooperate on trade-related aspects of resource use, waste management, chemicals and pollution policies, including land and sea-sources of micro-plastics, and support a transition to a more circular economy. This offers scope to tackle any challenges in these areas in the future.

Water impacts: All economic sectors need water; agriculture, industry and most forms of energy production are not possible without it. Over-abstraction leads to groundwater depletion, loss of habitats and deteriorating water quality.[105] Increased economic activity resulting from a trade deal could put additional strain on water resources in terms of quality and supply. The Agreement could increase the output of the agricultural sector, though the increase is not expected to be significant. Given this, and the high regulatory standards and enforcement in the United Kingdom protecting the water environment from both pollution and abstraction, impacts on the United Kingdom's water quality and resources from the Agreement is expected to be very limited.[106]

Fisheries impacts: Global trade in seafood has increased dramatically in recent decades. One of the key environmental concerns for policy makers is whether trade agreements will lead to further exploitation of fishing stocks and disruption to marine ecosystems and marine biodiversity. Sustainable fishing requires the conservation of fish stocks, whilst preserving the marine environment and ensuring the livelihoods of those dependent on fishing are protected. The Environmental Performance Index (EPI) ranks the health and sustainability of the world's fisheries by comparing country performance in several indicators including: fish stock status (FSS), and fish caught by trawling (FGT).[107] The table below shows the latest United Kingdom, Norway and Iceland rankings. It should be noted that the United Kingdom, Norway and Iceland all score poorly on both of these measures.

104 Office for National Statistics, "United Kingdom natural capital accounts 2019" – see carbon sequestration Chapter – https://www.ons.gov.uk/economy/environmentalaccounts/bulletins/uknaturalcapitalaccounts/2019

105 When water is taken from aquifers, groundwater levels fall. If the amount of water taken is greater than the amount of water falling as rain, it is called over-abstraction.

106 10 March 2020: Water factsheet (part 5) https://www.gov.uk/government/publications/environment-bill-2020/10-march-2020-water-factsheet-part-5

107 The Fish Stock Status refers to the percentage of a country's total catch that comes from overexploited or collapsed stocks, considering all fish stocks within a country's exclusive economic zone (EEZs). Overexploitation would lead to less stock over time. Fish caught by trawling measures the percentage of a country's fish catch (within its exclusive economic zones) caught by bottom or pelagic trawling, where a fishing net is pulled through the water behind a boat. This practice is indiscriminate and wasteful and can severely damage marine ecosystems. EPI Fisheries (2020): https://epi.yale.edu/epi-results/2020/component/fsh

Table 5: Environmental Performance Index (EPI) for the health and sustainability of fisheries

Country	United Kingdom	United Kingdom	Norway	Norway	Iceland	Iceland
Indicator	Rank	EPI Score	Rank	EPI Score	Rank	EPI Score
Fish Stock Status	38th	13.1	43rd	11.9	98th	2.8
Fish caught by trawling	52nd	3.7	33rd	7.3	64th	2.4

Source Environmental Performance Index (EPI), 2020. Note: The EPI score reflects how close countries are to the best environmental outcomes for a given measure – a score of 100 indicating a world leading performer.

Any additional trade potentially resulting from the Agreement could incentivise additional fishing. Additional trade could also have a negative impact on aquaculture (breeding, raising, and harvesting of fish, shellfish, and aquatic plants). This is because without effective control or mitigation measures in place, aquaculture practices are linked to reductions in water quality (due to fish waste build-up) and negative impacts on local fish species (as a result of escape and disease spread).[108]

The overall environmental implications of the Agreement on fisheries are difficult to discern given that the overall impact on trade and output of this sector is uncertain. In addition, it is difficult to assess the effect of the declining tariffs in specific fish and seafood products on trade (not just bilaterally, but in terms of trade diversion and wider patterns of trade in fish products). However, given the scale of liberalisation in this sector, the Agreement is not expected to have a significant impact on North Sea fish stocks. Total allowable catches of the coastal states, i.e., Mackerel, Blue Whiting and Atlanto-Scandian Herring, are set multilaterally and in line with the International Council for the Exploration of the Sea recommendations. Furthermore, uptake by Norway is already very high, therefore no significant risk of harmful impact is expected. In addition, the United Kingdom, Norway and Iceland already have the controls in place to tackling Illegal, Unregulated and Unreported (IUU) fishing, and these provisions are reiterated in the Agreement.

While the United Kingdom and Norway are members of North Atlantic Salmon Conservation Organisation (NASCO), Iceland exited the agreement in 2009,[1] and there are potential concerns harvesting wild salmon could undermine conservation. It is understood Iceland may export wild Atlantic salmon (though it has not been possible to identify the volume and it is expected to be minimal), whereas other NASCO member states do not do this due to poor stock status. Wild catches are negligible compared to tonnages of aquaculture produced Atlantic salmon, and so the impact is not assumed to be significant.

The United Kingdom can mitigate against many of the environmental risks through continuing to ensure measures are in place to manage and protect fish stocks and marine habitats. Although there are no specific new fisheries and marine protection measures within this trade deal, the United Kingdom, Norway and Iceland are seeking to address environmental concerns through existing regulations as well as through multilateral agreements.

108 FAO, http://www.fao.org/3/ad002e/AD002E01.htm

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