



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem



## Box D:

## QB 2 – April 2021

This Box content is extracted from the Quarterly Bulletin – Q2 2021

# Trade Flows in the Early Aftermath of Brexit

By Thomas Conefrey

The end of the Brexit transition period on 31 December 2020 ushered in major changes in the arrangements governing trade between the EU and UK. The passage of time and further data will be required before the full economic impact of the new arrangements can be clearly identified. This Box reviews some of the early data on trade developments in the UK and Ireland since the EU-UK agreement took effect.

While the EU-UK Trade and Cooperation Agreement avoided the introduction of tariffs, the UK's exit from the single market and customs union introduced a range of new barriers to trade in goods and services. For trade in goods, these include rules of origin checks, customs procedures and additional Sanitary and Phytosanitary (SPS) checks on agri-food products.<sup>1</sup> These requirements came into full force on 1 January 2021 across the EU for imports from the UK. In contrast, the UK is implementing new customs and border procedures on its imports from the EU on a phased basis. On 11 March the UK extended the introduction of full checks on EU goods until 1 January 2022.<sup>2</sup>

### UK-EU Trade

With this phased introduction of the new procedures by the UK, as well as the period it takes for firms to adjust to the new arrangements, it will take some time before the effect of the new EU-UK trade agreement is clearly visible. The introduction of full customs and SPS procedures by the EU but not the UK (until January 2022) means that British exporters will continue to face greater barriers trading into the EU than their EU counterparts have exporting to Great Britain. UK trade data for January provides a first glimpse at the possible impact of the new trading arrangements. As shown in Figure 1 and Figure 2, the data indicate that imports to the UK from the EU fell by less than UK exports in the

<sup>1</sup> See <https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/boxes/qb1-2021/box-c-the-eu-uk-trade-and-cooperation-agreement.pdf>

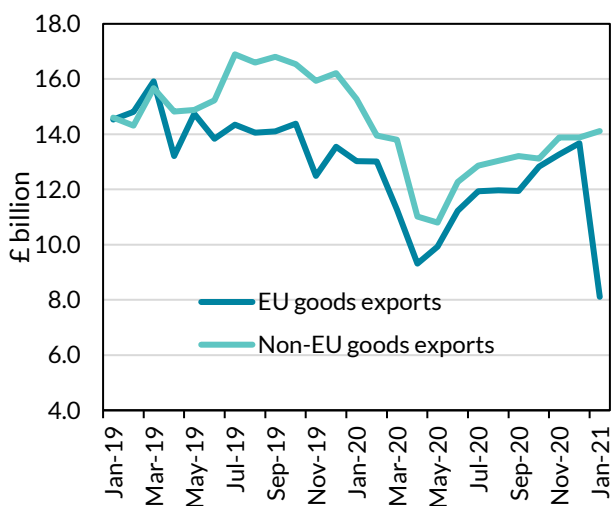
<sup>2</sup> The UK initially announced that the new customs and SPS checks would be introduced on a phased basis from 1 January until 1 July 2021, the date on which full border checks on EU goods entering Great Britain were to be operationalised.



month. On a month-on-month basis, UK exports to the EU fell by 41 per cent while imports from the EU declined by 28 per cent. By way of comparison, these reductions in EU-UK trade are much larger than the corresponding changes in trade between the UK and non-EU countries (non-EU goods exports increased in January). Caution needs to be exercised in interpreting these monthly changes. In particular, the UK Office of National Statistics (ONS) has pointed out that November and December 2020 saw increasing imports and exports of goods, consistent with potential stockpiling of goods from the EU in preparation for the end of the EU exit transition period. The UK also went into another national lockdown at the beginning of January 2021 which is likely to have affected UK trade.

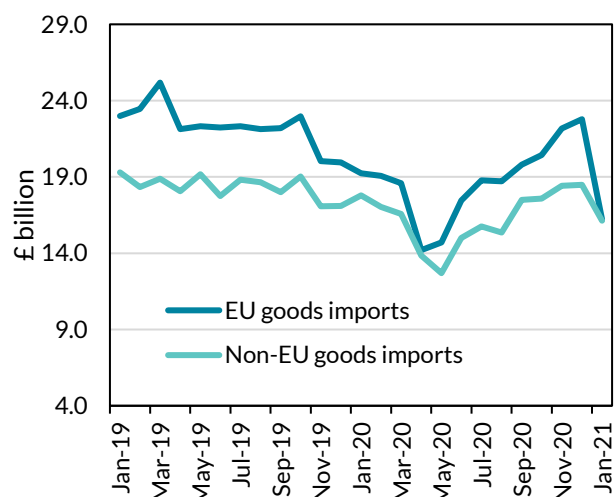
These considerations suggest that some of the declines in January may be temporary and could at least be partly recouped in the coming months. At the same time, even prior to the UK's formal exit from the EU there was evidence of a negative impact on UK trade arising from the vote to leave the EU.<sup>3</sup> Thus while the ultimate magnitude of the fall in EU-UK trade flows is still uncertain, the preliminary indications from the January data combined with existing evidence from research strongly points to a reduction in UK trade from moving to the less preferential terms of the post-Brexit trade deal. Lower UK GDP and imports will have negative knock-on consequence for the Irish economy.

**Figure 1: UK Goods Exports, EU and Non-EU, Seasonally Adjusted, £ billion**



Source: ONS.

**Figure 2: UK Goods Imports, EU and Non-EU, Seasonally Adjusted, £ billion**

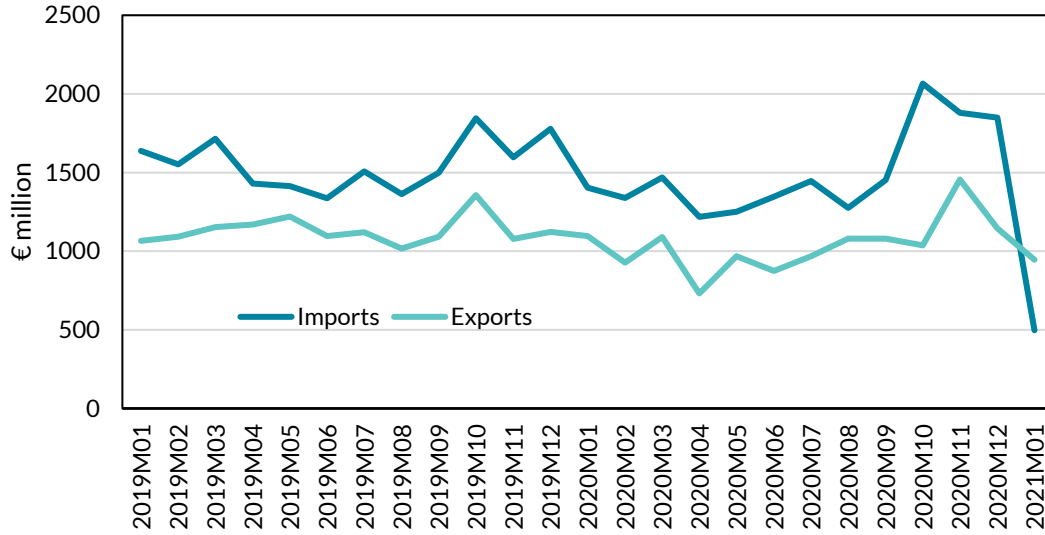


Source: ONS.

<sup>3</sup> See Crowley, M, O. Exton and L. Han. 2019. "[Renegotiation of Trade Agreements and Firm Exporting Decisions: Evidence from the Impact of Brexit on UK Exports](#)," CEPR Discussion Paper 13446 and Graziano, A., K. Handley and L Limão. 2021. "Brexit uncertainty and trade disintegration in Europe and beyond." Available at: <https://voxeu.org/article/brexit-uncertainty-and-trade-disintegration-europe-and-beyond>

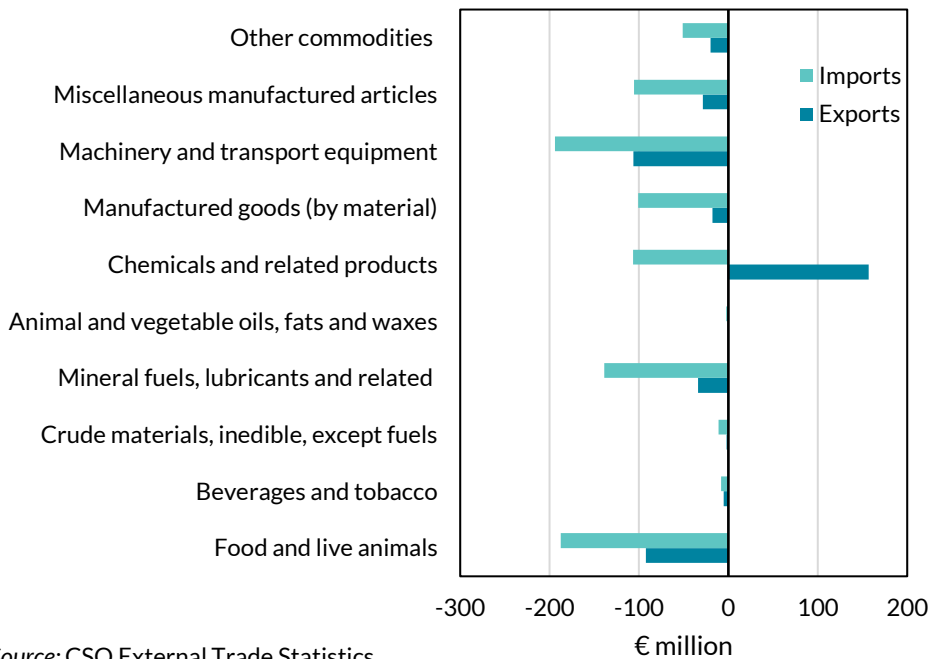


Figure 3: Ireland-UK Trade in Goods, Non-Seasonally Adjusted, € millions



Source: CSO External Trade Statistics.

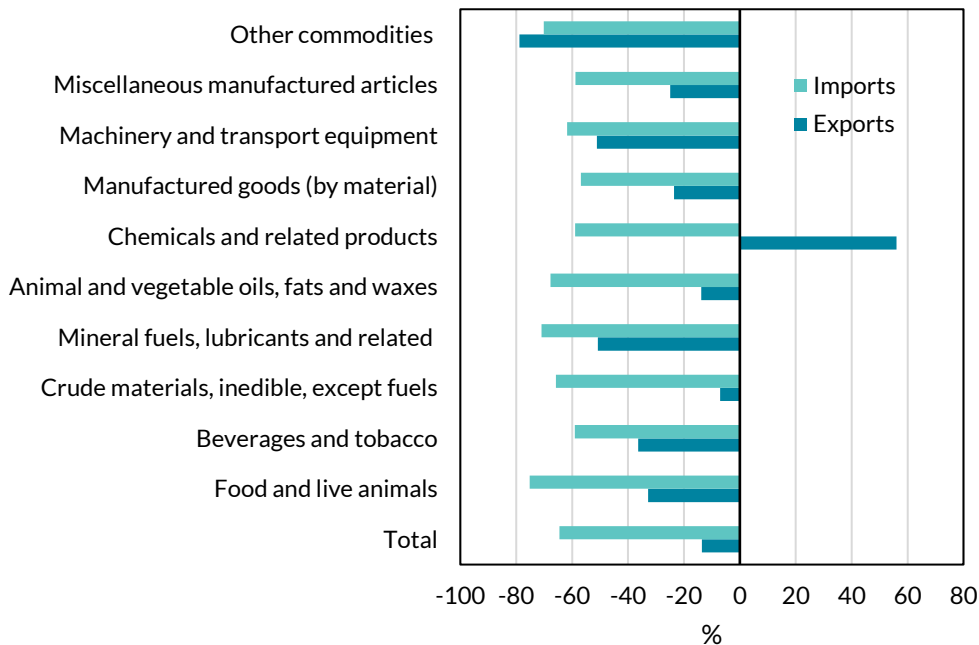
Figure 4: Change in Ireland-UK Trade in Goods, January 2021 versus January 2020, Non-Seasonally Adjusted, € millions



Source: CSO External Trade Statistics.



**Figure 5: Ireland-UK Trade in Goods, January 2021 versus January 2020, Non-Seasonally Adjusted, Year-on-Year Percentage Change**



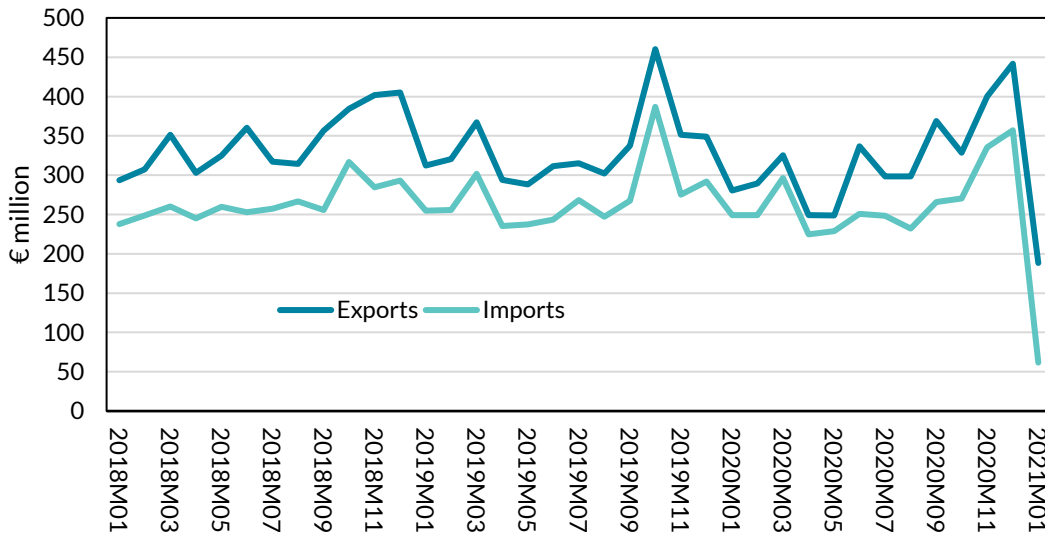
Source: CSO External Trade Statistics.

### Ireland-UK Trade

Further preliminary information on the early impact of the move to the new EU-UK trade arrangements can be gained from the monthly trade statistics for Ireland released on 18 March. As with the UK data, caution is required in interpreting trends from a single month's data in a context where several non-Brexit related developments are likely to be affecting trade flows. The monthly data show a 14 per cent (€149 million) drop in the value of exports to Great Britain and a 65 per cent (€906 million) fall in imports in January 2021 relative to January 2020. The fall in imports in January followed three previous months where the value of imports from the UK were significantly higher than in the corresponding months of the previous year (Figure 3). Figure 4 and Figure 5 show the decline in exports and imports by commodity group. The largest declines in imports from Great Britain in January were in machinery and transport equipment and food and live animals. The same sectors accounted for the biggest falls in exports.



Figure 6: Ireland-UK Trade in Food and Live Animals, Non-Seasonally Adjusted, € millions



Source: CSO Merchandise Trade Statistics.

Agri-food goods made up just under one-third of Ireland’s merchandise exports to Great Britain and around one-fifth of imports in 2020. The sector has been highlighted as being particularly exposed to the effects of the UK’s exit from the EU since new border formalities under the EU-UK agreement are most onerous on products of animal and plant origin. Figure 6 shows exports and imports of food and live animals between Ireland and the UK. Exports and import values both increased in the final three months of 2020, consistent with stockpiling of goods in the run-up to the end of the transition period (and in October 2019 – a previous Brexit deadline). In January 2021, exports and imports both fell sharply with Ireland’s imports from the UK recording the larger decline. The reductions in imports and exports occurred across all commodities and were largest in meat and dairy products. This is consistent with the implementation of full customs and SPS checks by the EU on UK imports in contrast to the phased introduction of checks by the UK on imports from the EU.

The extent to which the fall in agri-food imports from the UK in January reflects the effect of the introduction of new checks from 1 January is not possible to determine from the data. The impact of these non-tariff barriers can be largest at the time of their introduction, before firms, customs and port authorities have fully adjusted to the new arrangements.<sup>4</sup> The CSO has noted other that factors which are likely to have influenced the January data include the previous stockpiling of goods in Q4 2020, possible substitution with goods from other countries and a reduction in trade volumes due to the impact of COVID-19 related-restrictions throughout January. Although the fall in exports to the

<sup>4</sup> See Byrne, S. and J. Rice. 2018. “Non-Tariff Barriers and Goods Trade: A Brexit Impact Analysis.” Available at: [https://www.centralbank.ie/docs/default-source/publications/research-technical-papers/O6rt18-non-tariff-barriers-and-goods-trade-a-brex-it-impact-analysis-\(byrne-and-rice\).pdf?sfvrsn=4](https://www.centralbank.ie/docs/default-source/publications/research-technical-papers/O6rt18-non-tariff-barriers-and-goods-trade-a-brex-it-impact-analysis-(byrne-and-rice).pdf?sfvrsn=4)



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

UK was much smaller in January, it is notable that it occurred before the full range SPS checks on agricultural products have been implemented by the UK. It is possible that trade volumes will recover in the coming months but the data will need to be carefully monitored for signs of persistent weakness. This Box has focussed on developments in merchandise trade in January but services will also have been affected by the UK's exit from the Single Market. Similar monthly data for services trade are not published but quarterly data will be released by the CSO with the Q1 2021 National Accounts and Balance of Payments in June.

Around 90 per cent of Ireland's merchandise trade in volume terms is transported using sea borne freight. As well as changes in the value of trade, there have been significant changes in sea freight logistics since 1 January. In particular, there has been a large increase in direct freight sailings to the Continent. In February 2021, there were around 68 Roll-on Roll-off (RoRo) freight sailings between Ireland and the Continent in a typical week, an increase of 34 per week compared to February 2020. At the same time, weekly RoRo freight on Ireland-Great Britain routes has reduced.<sup>5</sup> The increase in direct Continental freight capacity has facilitated importers and exporters wishing to avoid new customs procedures at UK ports, but is likely to have implications for the cost of importing and exporting. Further data and analysis will be required to identify any passthrough to import and consumer prices in Ireland or for evidence of adverse effects on the competitiveness of Irish exporters.

---

<sup>5</sup> See <https://www.gov.ie/en/publication/b3b67-government-operational-update-two-months-post-brexit-transition/#freight-capacity>