EXECUTIVE SUMMARY

Impact of the EU-UK future trade relationship on the European pharmaceutical industry

July 2020

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Date:
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Executive Summary of the EU-UK Scenario study

The study compares three scenarios for the EU-UK future relationship and their long-term economic impact ('after the dust has settled') for the EU and UK on GDP, medicines production and trade.[i]

Scenarios	Scenario Description
No Deal	EU and UK fail to agree to a deal; the two parties trade on WTO terms from 2021.
Simple FTA	EU and UK agree a limited Free Trade Agreement (FTA) covering tariffs from 2021.
FTA with MRA	A deeper FTA with zero tariffs and NTMs at 50% of No Deal levels on pharmaceutical trade between EU and UK, notably via a Mutual Recognition Agreement on pharmaceutical GMP inspections and batch testing (GMP MRA).

Overall conclusions:

- An FTA with MRA is the most beneficial scenario for both the UK and the EU. The report shows a significant difference in reducing the negative impact on GDP, exports and production for the EU and UK compared to the other scenarios.
- Without the FTA with MRA, the EU and UK will be less competitive relative to the US, Japan, Switzerland, and China. Third countries benefit most from a No Deal scenario. Europe (EU and UK) will increasingly source from these countries benefitting global competitors in GDP, exports and production.
- Weaker economic ties between the EU and UK will lead to higher costs for both as they will no longer source products as efficiently from each other or from third countries.
- The Simple FTA matters. In the long-term, the EU nominal GDP would be €6.6 billion better off each year than in a No Deal, while the UK would be €5.0 billion better off than in a No Deal. But the FTA with MRA leads to a €1.3 billion higher nominal GDP annually for EU Member States compared to the Simple FTA.
- For the pharmaceutical industry a Simple FTA does not significantly differ from a No Deal in terms of *exports* or *production* as medicines are already traded almost tariff-free.[ii] EU *exports* will be €1.1 billion higher annually in an FTA with MRA compared to a Simple FTA, and EU pharmaceutical *production* will be almost €1.0 billion higher annually.

Key Statistics:

All scenarios impact the **level of pharmaceutical sector integration** between the EU and UK:

- For every unit of medicine sold in the UK today, 45% of the value is created in the EU. This would drop to 35% following a No Deal, but only to 40% in an FTA with MRA.
- For every unit of medicine sold in the EU today, 5% of the value is created in the UK. This would drop from 5% to 3% following a No Deal, but to 4% with an FTA with MRA.

For the EU, the difference between a No Deal and an FTA with MRA is substantial:

- EU *nominal GDP* will be €1.3 billion higher annually in an FTA with MRA, compared to a No Deal.
- EU pharmaceutical *exports* are expected to drop by 1.2% in case of a No Deal, and by 0.9% in case of an FTA with MRA. This is a difference of €1.2 billion annually.
- *Exports* from Ireland, Germany, Belgium are hit hardest under a No Deal or Simple FTA. Irish medicines exports would be €716 million lower annually compared to an FTA with MRA; German pharma exports €196 million; Belgian exports €191 million. For other Member States like France, Italy, Spain and Sweden, an FTA with MRA is also more positive for annual exports than a No Deal.
- *Pharmaceutical production* in the EU27 would be negatively impacted by a No Deal to an amount of €4.6 billion per year (especially in Ireland and Belgium). With a Simple FTA the EU would be €145 million per year better off than this, and €1.1 billion per year better off with an FTA with MRA**.** EU

Member States whose pharma production would be better off under an FTA with MRA than a No Deal include Belgium, France, Germany, Ireland, Malta, the Netherlands, and Sweden.

For the UK, the long-term difference between a No Deal and an FTA with MRA is significant:

- UK *nominal GDP* will be €2.5 billion higher annually in an FTA with MRA compared to a No Deal.
- UK pharmaceutical *exports* are expected to drop by 12.6% in an FTA with MRA, while for a No Deal scenario this would be almost doubled to 22.5%. This is a difference of €1.8 billion annually.
- In all three scenarios, the UK will experience losses in *production* in the UK (-1.2%, -0.8% and -2.2% for No Deal, Simple FTA and FTA with MRA respectively). This amounts to losses between €236 million to €621 million per year.

The bigger the disruption to EU-UK pharmaceutical trade, the more **third countries** benefit:

- Third countries benefit most from a No Deal in terms of GDP, exports and production, as the loss in EU and UK competitiveness (due to negative cost developments) is largest in this scenario.
- The US, Switzerland, Japan, and Turkey benefit in terms of *nominal GDP* from a No Deal, but less from an EU–UK FTA with MRA, as their relative competitive advantage will not be as large.
- US *pharmaceutical exports* go up by 3.5% (€2.4 billion) in case of a No Deal / Simple FTA but by much less – 1.5% (€1.0 billion) – in an EU-UK FTA with MRA. Similar relative export boosts happen for Switzerland and (+2.9%), for China (+1.7%) and Turkey (+1.5%).
- *Pharmaceutical production* in third countries will go up to replace EU and UK production, as both become less competitive globally. For example, for Switzerland, production goes up by €1.5 billion (+2.6%) under a No Deal and US production rises by €3.1 billion (+1.9%). Under an FTA with MRA, Swiss and US production will only increase by half that amount. Also Japan, Turkey, China, and Russia benefit.
- Third countries will to some extent replace the EU and UK on global markets and become more important suppliers for Europe. In the FTA with MRA scenario the relative loss of European (EU and UK) competitiveness and hence third country benefits, are much smaller.

This study finds there is a significant long-term economic rationale for the EU and UK to agree to an FTA with MRA compared to the No Deal and Simple FTA scenarios when looking at exports, production and global competitiveness. Without an FTA and MRA, both the EU and UK become less competitive compared to global competitors.

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[i] The study employs a Multi-Region input-output analysis to look at how economies are linked together and a Computable General Equilibrium (CGE) methodology, as the European Commission uses for evaluating trade agreements, to look at macro-economic effects.[i] All three scenarios depart from the same baseline, the current economic and trade policy situation (2018 data), and show long-term effects of the scenarios. We assume that gradually, but at the latest by 2030, the different shocks have worked through the EU and UK economies.

[ii] This is under the WTO Zero-for-Zero Pharmaceutical Tariff Agreement (0-4-0), which the EU is a member of. The 0-4-0 agreement covers all finished pharmaceutical imports, and some inputs.