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UK exports: EU-market fades, but imposes heavier burdens than ever

I. Rising deficit with the EU, surplus with the Rest of World

The UK surplus on its trade with the USA rises for the fourth year running

The official trade statistics[1] confirm that in 2005 the UK, on its trade with the 24 other EU countries (absorbing about 40 per cent of the UK's worldwide exports), was once again in heavy deficit. On its trade with non-EU countries (absorbing about 60 per cent of UK exports) the UK was in surplus (Table1).

Not only that: the overall deficit with the EU deepened, going from under £1 billion in 2001 to over £32 billion in 2005 (Table 2). That overall deficit is caused mainly by the deficit on trade in goods: for every £100 of goods the UK sells to the EU, the EU sells £130 of goods to the UK. Another component of the UK deficit with EU-24 is the UK's net contribution to EU institutions, which, in 2005, was £ 6.1 billion, an increase of 20% on the £5.1 billion paid over in 2004. In 2005 the UK gross contribution was a record £ 15 billion, of which the UK received back £ 8.9 billion from "Brussels".

The single biggest country component of the deficits with the EU (and with the whole world) is the deficit with Germany, and that deficit is mainly in trade in goods. For every £100 of goods that the UK sells to Germany, Germany sells £170 of goods to the UK.

In contrast, the UK is in substantial – and growing – surplus on its trade with the USA: £ 13.9 billion in 2005, its biggest trade surplus worldwide.

In 2005 exports of goods accounted for just 40 per cent of the UK's worldwide exports, followed closely by receipts of income, which accounted for another 36 per cent. Exports of services represented another 21%, the remaining 3% being transfers.

Table 1: UK Trade Balances by Category in 2005

£ billion	*Goods*	*Services*	*Income*	*Transfers*	*Total*
UK/EU: UK balance	(36.0)	(1.8)	11.3	(5.6)	(32.2)
UK/non-EU: UK balance	(31.3)	24.8	18.5	(6.6)	5.6
UK/World: UK balance	**(67.3)**	**23.0**	**29.8**	**(12.2)**	**(26.6)**

Source: Pink Book 2006[1]: Table 9.1: pages 122-124. Figures in brackets denote a UK deficit.

Table 2: UK Trade* Balances 1999 – 2005: £ bn							
Counterparty	***1999***	***2000***	***2001***	***2002***	***2003***	***2004***	***2005***
UK Deficit with EU-24	(9.2)	(6.3)	(0.7)	(10.2)	(22.0)	(27.8)	(32.2)
UK Balances with World outside EU	*(12.5)*	*(18.5)*	*(21.2)*	*(6.3)*	*+7.1*	*+8.5*	*+5.6*
UK Deficit with Whole World	**(21.7)**	**(24.8)**	**(21.9)**	**(16.5)**	**(14.9)**	**(19.3)**	**(26.6)**
UK Deficit with World/UK GDP	(2.4%)	(2.6%)	(2.2%)	(1.6%)	(1.3%)	(1.6%)	(2.2%)
**Trade consists of Goods, Services, Income & Transfers*							
Source: Pink Book 2006[1]: Table 9.2: page 127. Figures in brackets denote a UK deficit.							

II. Trade deficit with EU means 700,000 fewer UK jobs

The UK Government claims that *"[over] three million British jobs are linked to EU exports"*[2] (i.e. exports to the EU). If British exports of goods & services to the EU do indeed sustain 3 million UK jobs, by the same reasoning EU exports to the UK displace 3.7 million UK jobs (Table 3).

The net impact on the UK economy is therefore unequivocally NEGATIVE, the UK trade deficit with the EU resulting in 700,000 fewer UK jobs than would have been the case had British trade with the EU been in balance.

Table 3 : UK Trade in Goods & Services with EU-24 in 2005			
Direction of Trade	***£ billion***	*Index*	***No of UK Jobs sustained, million***
UK > EU (exports)	166	*100*	3.0
EU > UK (imports)	(203)	*(123)*	(3.7)
Balance (deficit)	(38)	*(23)*	(0.7)
Source::The Pink Book 2006: Table 9.3, pp 129-131			

III. EU Takes Declining Share of UK Exports

*UK exports **outside** the EU are growing over 40% faster than UK exports **to** the EU*

Table 4: Share of UK Worldwide Exports# Going to EU-24: Unadjusted Data					
Year	***2001***	***2002***	***2003***	***2004***	***2005***
Share %	52.3	52.3	50.7	49.0	48.0
# Goods, Services, Income, Transfers					
Source : Pink Book 2006[1] Page 125, Table 9.2,					

EU-24 is taking a declining share of the UK's worldwide exports (Table 4); an increasing proportion of the UK's worldwide exports is going outside the EU. The trend set in in 2002 and continues.

The UK's official export statistics (Table 4) over-state exports going to the EU, and under-state exports going to the world outside the EU. When the official figures are corrected for these distortions[3], the real share of the UK's worldwide exports absorbed by EU-24 is significantly lower. Absolute precision is impossible, but a plausible estimate for 2005 would be well below 45%, most likely nearer 40% than 45%.

The corresponding adjusted real proportion of the UK's worldwide exports going ***outside the EU*** in 2005 would be somewhere between 55% and 60%, with 60% more likely than 55%.

The decline in the share of worldwide UK exports going to EU-24 is the result of UK exports to the world ***outside the EU*** growing faster than UK exports ***to the EU***.

Over the period 1999 – 2005 UK exports to the world outside the EU grew at almost 8% a year, forty-five per cent **faster** than British exports to the EU, which grew at only 5.5% per year. If we look at Continental EU only (i.e. EU-24 less Ireland) the disparities in growth rates become even more striking: UK exports to the world (including Ireland) outside Continental EU grew sixty-seven per cent faster than British exports to Continental EU.

Outside the EU, British exports grew at a healthy pace to wealthy developed nations like the USA, Australia and Singapore (Canada and Japan being notable exceptions). They also grew at a good pace to developing nations like Russia, Turkey, China/Hong Kong, the Gulf Sheikdoms and South Africa.

EU to take only 35% of UK Exports by 2015 ?

If present trends continue, with UK exports *OUTSIDE* the EU growing 45 per cent faster than UK exports *TO* the EU, the real proportion[3] of the UK's worldwide exports going to the EU in ten years' time will have dropped to 35 per cent.

IV. UK Imports: No Benefit from EU Membership

EU-24, as a source of imports into the UK, offers UK importers & consumers no significant advantage or benefit compared with imports from elsewhere

Under the terms of the EU Customs Union, of which the UK has been a member since 1973, UK importers of goods are obliged to pay customs duties, and suffer the consequences of EU anti-dumping restrictions, on the goods they import from OUTSIDE the EU. There are no such duties or restrictions (officially anyway) when UK importers import goods from EU countries.

Other things being equal, one would expect UK importers to favour imports originating INSIDE the EU over imports originating OUTSIDE the EU.

However, the 1999 – 2005 growth rates indicate that, for British importers and consumers of goods, EU-originating imports appear to be no more attractive than imports originating outside the EU. The rates of growth of UK imports of GOODS from EU-24 and from OUTSIDE the EU were similar over the period 1999 – 2005 (6.13 per cent and 6.07 per cent respectively), suggesting that, despite the handicaps – customs duties, non-tariff barriers etc - associated with imports from OUTSIDE the EU, the EU-24, as a source of imports into the UK, offers UK importers and consumers no significant advantage or benefit compared with imports from elsewhere.

The same goes for services, where the rates of growth of UK imports from EU-24 and the world outside the EU are also very similar (6.75 per cent and 6.46 per cent respectively). Imports of services into the UK from other EU countries are not subject to customs duties or anti-dumping measures, though, as the fuss over the "Bolkestein Directive" showed last year, trade in services within the EU is still hampered by national protectionism.

Notes & References

1. ***United Kingdom Balance of Payments: The Pink Book 2006*****:** Office for National Statistics, July 2006. ISSN: 0950-7558. Free download: www.statistics.gov.uk > Browse by Theme > Select Theme > Economy > Go > More detailed topics for Economy > Balance of Payments > United Kingdom Balance of Payments: The Pink Book > Pink Book 2006
2. In speech by the Minister for Europe (Rt Hon Geoffrey Hoon MP) to the Centre for European Reform, London 14th June 2006
3. There are two separate distortions: the Rotterdam-Antwerp Effect, concerning exports of goods and services (described on page 188 of the new *Pink Book*); and the Netherlands Distortion, which affects flows of "Income". For a discussion of these distortions, see Appendix IV and Appendix V of ***A Cost Too Far ?,*** by Ian Milne, Civitas 2004, www.civitas.org.uk. See also Global Britain Briefing Notes Nos 32 & 22, www.globalbritain.org

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Enquiries: Ian Milne, Director, **Global Britain**, 57 Tufton Street, London SW1P 3QL

email: globalbritain-1@globalbritain.org Web: http://www.globalbritain.org

Lord Stoddart of Swindon
(Independent Labour)

Lord Pearson of Rannoch
(Independent Conservative)
