

Global Britain Briefing Note

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The Rotterdam-Antwerp Effect & the Netherlands Distortion

After taking account of both these distortions, the “real” proportion of worldwide UK exports going to EU-26 is likely to be closer to 40% than to 50%.

Why the distortions occur

The official British trade statistics are produced by the Office for National Statistics (“ONS”), an agency of HM Treasury. They significantly overstate the real level of UK exports to the rest of the EU, because of two separate distortions, the **Rotterdam-Antwerp Effect** & the **Netherlands Distortion**. The Rotterdam-Antwerp Effect concerns trade in goods, and, to a lesser extent, trade-related services; the Netherlands Distortion concerns flows of Income (and flows of capital). The existence of both distortions is recognised by the ONS & its fellow-bodies in other countries, and their distortionary effects can be seen in the trade statistics of EU countries such as France and non-EU countries such as Switzerland. The Rotterdam-Antwerp Effect is discussed on page 200 of the ONS’s *The Pink Book 2010*.

The **Rotterdam-Antwerp Effect** arises because the ONS and its fellow-bodies overseas, in compiling their geographical registers of exports, record as the destination of the export the country of the first port of discharge of a consignment, even when the consignment is only in transit on its way to a different end-destination country.

Rotterdam in the Netherlands and Antwerp in Belgium, two of the biggest ports in the world, handle substantial quantities of British exports. Some of those exports are consumed in the Netherlands and Belgium; others are shipped onwards to other EU countries by road & rail; still others transferred to cargo vessels going to other continents. Even when recorded as exports to the Netherlands and Belgium, British goods may not even touch Dutch or Belgian soil, simply being transhipped in the ports of Rotterdam and Antwerp to container vessels bound for – say – Singapore.

A separate distortion, the **Netherlands Distortion**, arises because investments of capital and the income generated thereon are often, for tax reasons, channelled through Dutch “brass-plate” holding companies by investors (corporate or otherwise) domiciled in other countries. Nevertheless, the Income is recorded as originating in or destined for the Netherlands. Luxembourg is another jurisdiction favoured by investors for tax reasons where the same distortion arises.

How big are the distortions ?

With the exception of the Banque de France, which has quantified the effect of the Netherlands Distortion on French trade data¹, none of the national statistical bodies appears to have tried to quantify the impact of these distortions. However, Global Britain, based on long familiarity with the Benelux countries, France and Germany, has made estimates from time to time. The latest, using 2009 data, is set out below.

The magnitude of the distortions is illustrated in the table below, which, in 2009, on the basis of the “official” data, shows each Dutch person apparently consuming almost five times as much by value of British imports as a German or French person, and each Belgian person apparently consuming almost three times as much by value of British imports as a German or French person. The table also shows each Luxemburger apparently consuming around 50 times as much in value of British imports as a German or a French person.

On-the-ground observation suggests that the per-capita propensity of Germans, French, Dutch, Belgians & Luxemburgers to consume British imports is broadly similar. The “excess” British imports apparently being consumed by the Dutch, Belgians & Luxemburgers (compared with the Germans & French) constitutes the distortion, which, to give an accurate picture of the real level of their imports from the UK, should properly be allocated to other end-destination-countries within and outside the EU.

The Rotterdam-Antwerp Effect & The Netherlands Distortion: their effect on the “official” trade statistics					
	Germany	France	Netherlands	Belgium	Luxembourg
A: 2009 UK Exports¹ to:-	£ 45.64bn	£35.84bn	£45.55 bn	£17.39bn	£14.71bn
B: 2009 populations² mn	81.88	62.62	16.53	10.79	0.50
A/B: UK exports, <i>per capita of receiving country</i>:-	£ 557	£ 572	£ 2756	£ 1612	£ 29420
<i>1: Goods, Services, Income, Transfers. Source: UK Balance of Payments: The Pink Book 2010: www.statistics.gov.uk These are the “official” figures</i>					
<i>2: Source: World Bank: World Development Indicators Database (quoted in Global Britain Briefing Note No 59, www.globalbritain.org)</i>					
<i>See also Global Britain Briefing Note No 32: Foreign Direct Investment: The Netherlands Distortion: 11.9.2004, www.globalbritain.org</i>					

If the per capita value of underlying “real” imports of British goods, services & income into the Netherlands, Belgium and Luxembourg is assumed to be the average of the recorded per capita value of British imports into Germany & France – that is to say, £ 565 – then the adjusted total value of underlying “real” British imports into the Netherlands, Belgium & Luxembourg would be as follows:-

UK Exports: “Real” versus “Officially recorded” in 2009			
£ bn	Real*	Recorded	Excess
To Netherlands	9.34	45.55	36.21
To Belgium	6.10	17.39	11.29
To Luxembourg	0.28	14.71	14.43
Total	15.72	77.65	61.93
<i>*assuming per capita imports of £ 565 in each country</i>			

It is assumed that half of the total “excess” – of £ 61.93 bn – goes to other EU countries, and half to countries outside the EU. To calculate the “real” proportion of UK exports going to EU-26 in 2009, £ 31 bn (£ 61.93 divided by two then rounded up) has to be subtracted from the official total figure of UK exports to EU-26 of £ 277 bn, to give £ 246 bn.

The value of UK exports worldwide - £ 577 bn - does not change. The “real” proportion of UK exports going to EU-26 is therefore 42.6 % (246 divided by 577), compared with the “official” proportion of 48.0 %.

Conclusion

The effect of these distortions is to reduce – in 2009 - the proportion of worldwide UK exports going to EU-26 by an estimated 11.25 %, from the recorded “official” unadjusted percentage of 48.0 % to the estimated “real” adjusted percentage of 42.6 %.

In assessing the reliability of this estimate the following should be borne in mind:-

- The data is for one year only, possibly an atypical year because of the recession which took hold a year earlier. (In 2009, the value of UK exports worldwide was 15 per cent lower than in 2007; UK receipts of Income were 41 per cent lower than in 2007).
- The “real” level of imports from the UK per capita of the receiving populations in Germany, France, the Netherlands, Belgium and Luxembourg is assumed to be the same as the “official” average of German & French imports, of £ 565 per capita.
- It is assumed that half of the “excess” goes to other EU countries, half to countries outside the EU.

It seems reasonable to conclude that the “real” proportion of UK exports going to EU-26 is more likely to be close to 40% than to 50%. If 40% is the right percentage, it follows that the proportion of UK exports going OUTSIDE the EU is close to 60%; it follows, arithmetically, **that the value of worldwide UK exports going outside the EU is 50% greater than the value of UK exports going TO the EU (60 minus 40 = 20 divided by 40).**

Reference: 1 Banque de France, *Balance des paiements et position extérieure: Rapport Annuel 2009*, www.banque-france.fr

Global Britain

Lord Stoddart of Swindon
(Independent Labour)

Lord Pearson of Rannoch
(United Kingdom Independence Party)

Lord Willoughby de Broke
(United Kingdom Independence Party)

Lord Harris of High Cross (1924- 2006)
(Cross-Bencher)

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