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The Hidden Cost of Exporting to the EU Single Market

UK goods exports to the EU bear a hidden ad valorem export tariff of one hundred and four per cent

The Business Case for retaining EU membership

In the autumn of 2014 the business debate about British membership of the EU is almost entirely focussed on “trade with the Single Market”. Few business supporters of EU membership argue that any other aspect of EU membership actually benefits the UK.

Supporters of EU membership assert that the UK needs to be in the EU to “get access” to the Single Market. That assertion takes no account of the fact that well over a hundred non-EU countries have always exported to the EU. (The USA – not in the EU, with zero MEPs, zero Commissioners and zero votes in the Council of Ministers – exports almost as much to the Eurozone as the UK does¹).

For the UK, “access” to the Single Market comes at a cost. That cost is very substantial. It is a cost which is *not* borne by non-EU countries such as the USA, China, Japan, South Korea and the many other countries which export to the EU.

It is a cost which handicaps British exporters compared with their non-EU competitors.

The cost to the UK of “access” to the EU Single Market

Many rigorous cost-benefit analyses (“CBAs”) of the net cost to the UK economy of EU membership have been carried out between 2000 and 2013. The conclusions of ten such CBAs are summarised below.

A plausible conservative estimate from those CBAs indicates a *net* cost to the UK economy arising from its EU membership of around ten per cent of UK GDP every year.

UK GDP at current prices in 2012 was £1562 billion². Ten per cent of that is £156 billion - the estimated *net* cost to the UK economy of EU membership in that year alone.

The logic of the assertion by business supporters of EU membership - that the UK is in the EU to “get access” to the Single Market - is that such access costs the British economy, net, £156 billion a year.

The value of UK goods exports to the EU in 2012 was £ 150 billion³.

Following through the inexorable logic of the assertion that the UK is in the EU to “get access” to the Single Market, one pound sterling’s worth of UK goods exports to the EU involves a cost (borne by the UK economy as a whole) of £ 1.04 (156 divided by 150). **In effect, every pound sterling’s worth of goods exports to the EU bears a hidden *ad valorem* “export tariff” of one hundred and four per cent.**

*[If the definition of “exports” is expanded to include exports of goods and services plus receipts of income, the corresponding UK figure for those categories of exports to the EU in 2012 was £ 269 billion³. Applying the same inexorable logic, such exports involved a burden on the UK economy of £ 156 billion, meaning that, in effect, every pound sterling’s worth of UK exports of goods & services plus receipts of income to the EU bears an ad valorem “export tariff” of **fifty-eight per cent** (156 divided by 269).]*

The Economic Cost of EU Membership

Estimates of the ongoing Net Cost to the UK of its membership of the EU range upwards from four per cent of GDP per year.

In just the thirteen years 1997 – 2009 inclusive, the cumulated UK current account deficit with EU-26 (trade deficit plus the net budgetary contribution to “Brussels”) was £ 218 billion

In the first decade of the 21st Century at least eight authoritative Cost-Benefit Analyses (“CBAs” – listed overleaf) of EU membership have been undertaken in the UK, France, Switzerland & the USA. None has concluded that the benefits – if any exist at all – of EU membership outweigh the costs. Most conclude that the net costs of EU membership are significant, **ranging from a “rock-bottom” 4% of GDP to over 10% of GDP¹.**

The results of these eight 21st Century CBAs should surprise no-one. Well before 1973, when the UK joined the then “Common Market”, economists concluded that the impact of UK accession would be unequivocally negative. Even the government White Papers of 1970 & 1971 predicted negative economic consequences.

In October 2005 Gordon Brown, the former Chancellor, published a Treasury paper under his own signature, titled *Global Europe, full employment Europe*. His estimates of the costs of EU membership were as follows:-

<i>EU Protectionism</i>	<i>7% of GDP</i>
<i>Competition gap with US</i>	<i>12% of GDP</i>
<i>EU Over-regulation</i>	<i>6% of GDP</i>
<i>Transatlantic barriers to trade</i>	<i>3% of GDP</i>

Those add up to 28% of GDP. Mr Brown did not say whether there might be some degree of overlap in those four categories. Even if the total of 28% were to be divided by, say, four, to eliminate the effects – if any – of overlap, that still puts the annual cost of EU membership at 7% of GDP, or £98 billion at 2009 prices.

Conclusion

These Cost-Benefit Analyses suggest not only that EU membership imposes annual *net* costs of upwards of 4 per cent of GDP on the economies of EU member countries, but that **percentages in double figures are perfectly plausible.**

Complete, Partial & Inadvertent CBAs (Cost-Benefit Analyses) published since 2000

- In April 2004, the New York Fed published *Benefits & Spillovers of Greater Competition in Europe: A Macroeconomic Assessment*, Staff Report No 182, www.newyorkfed.org/research/staffreports. It concluded that “....increasing competition in the euro area to US levels **could boost output by 12.4%** in the euro area as both investment & hours worked rise markedly...”
- *A Cost Too Far ?* by Ian Milne, Civitas, July 2004, put the “rock-bottom” net cost of EU membership at **4% of GDP** rising to 26% due to measures already then in the EU pipeline. This book discusses (pp 36 – 39) CBAs done by the NIESR, the IoD, the (US) ITC & the IEA between 2000 & 2003. www.globalbritain.org > Publications by Global Britain authors > A Cost Too Far ? > Chapter 9: Recent Cost-Benefit Analyses
- In 2005, Minford/Mahambare/Novell published *Should Britain Leave the EU ? An economic analysis of a troubled relationship*. Their conclusion: EU membership costs the UK **24.5% of GDP**. IEA/Edward Elgar, ISBN 1-84542-3798 www.iea.org.uk
- In 2005, the Rt Hon Gordon Brown MP, then Chancellor, published *Global Europe: full-employment Europe* – which, no doubt inadvertently, is a kind of CBA. www.hm-treasury.gov.uk (See previous page).
- In March 2006 the French *Conseil d'Analyse Economique* (a kind of super-charged Policy Unit attached to the French Prime Minister's Office) published *Politique Economique et Croissance en Europe*. www.globalbritain.org > Briefing Notes > No 43: France Assesses Costs & Benefits of EU Membership. Conclusion: **no net economic benefit to France** of EU membership, or of adopting the euro.
- In June 2006 the Swiss Federal Government published *Europe 2006 Report*, an economic comparison of Switzerland's joining a) the EU or b) the EEA or c) staying with its current arrangement of sectoral bi-lateral FTAs with the EU. www.globalbritain.org > Briefing Notes > No 42: The Swiss Government's Cost-Benefit Analysis of EU Membership. Conclusion: joining the EU would be **nine times as expensive** for Switzerland as staying with its current arrangements of sectoral free trade agreements with the EU.
- In late 2006 the then EU Commissioner for Enterprise & Industry, Gunter Verheugen, announced that EU regulation alone cost € 600 billion a year, equivalent to **5.5 per cent of EU GDP**.
- In March 2009 Craig & Elliott, in *The Great European Rip-Off*, put the annual cost of EU membership for the UK at £ 130 billion, equivalent to **9.3 % of UK GDP** in that year.

Published after the issue of Global Britain Briefing Note No 65:-

- In September 2013, UKIP published “How much does the European Union cost Britain ?” by Tim Congdon CBE, which concluded that the annual net cost to the UK economy was 11% of GDP
- In February 2014, Roger Bootle's team at Capital Economics, in a report commissioned by a Dutch political party, estimated that the Dutch economy would gain 10-13% of GDP annually if the Netherlands left the EU.

References

1. Global Britain Briefing Note No 93, *On Brexit, zero prospect of EU discrimination against UK trade*, Table 2, www.globalbritain.co.uk
2. Blue Book 2012 > Table 1b, GDP at market prices, 1997 to 2012, www.statistics.gov.uk
3. Global Britain Briefing Note No 87, *UK Trade in 2012*, Table 3, www.globalbritain.gov.uk

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