

**TRADE POLICY RESEARCH CENTRE**

**DISCUSSION PAPER**

**UK Trade Statistics**

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## **STATISTICAL SOURCES**

*This research paper is based primarily on UK trade statistics available from the “Pink Book” on the UK Balance of Payments and from the HM Revenue & Customs UK Trade Information website. The ultimate source in both cases is the Office for National Statistics.*

*The Pink Book is the official source for all annual UK balance of payments figures, including trade in goods and services. It is published once a year online, but no longer in printed form. Methodological notes, including detailed definitions, are given in its final pages. The 2013 edition contains annual trade statistics up to 2012.*

*Statistics for UK trade in goods are also available on the HMRC UK Trade Information website (<https://www.uktradeinfo.com/Pages/Home.aspx>), but in much more detailed form than those given in the Pink Book. Furthermore, they are published monthly, two or three months in arrears. Users can construct their own tables for every category of merchandise, as defined by its SITC (Standard International Trade Classification) code, broken down by country of destination for exports and country of source for imports. The HMRC website is quite complicated to use, which may be one reason why it is less familiar than the Pink Book.*

*In this paper all statistics for UK trade in goods have been sourced from the HMRC website and may show minor variations from those published in The Pink Book 2013. All statistics for UK trade in services have been sourced from The Pink Book 2013.*

## **INTRODUCTION**

The TPRC has conducted an exhaustive review of the available UK trade statistics. These cover UK goods and services exports up to the end of 2012. Seven main points arising from this analysis are discussed below. Other more detailed analyses are included in an Appendix, which will be separately available on request.

The TPRC's conclusion from this and other research is that if the UK does ultimately determine to leave the EU it should negotiate to do so on the basis that it would remain in customs union with the EU on a new inter-governmental basis with the same population-based voting rights on trade matters as it will have with effect from November 2014 under Article 238(5) of the Treaty on the Functioning of the European Union. The UK's first preference, however, should be to negotiate an acceptable basis for it to continue as a full EU member.

## **EXECUTIVE SUMMARY**

1. UK exports of goods and services to the EU in 2012 accounted for only 42 per cent of total UK exports of goods and services worldwide, after allowing for the so called "Rotterdam–Antwerp effect". This represented a substantial decline from the 48 per cent level which applied in 2000. The Single Market has therefore clearly been failing the UK.
2. Over the period 2007-12 UK exports of both goods and services grew more rapidly to the rest of the world than to the rest of the EU. There are no obvious grounds for asserting that growth in UK exports to the rest of the world has in any way been held back by the UK being in customs union with the EU.
3. On current trends the proportion of UK goods and services exports going to the rest of the EU would decline to 39 per cent by 2015 (the General Election year) and 37 per cent by 2017 (the proposed referendum year). Every year there is less and less justification for the UK allowing its international competitiveness to be burdened by submitting to costly EU regulation, particularly in such areas as social, environmental and health & safety policy. Any argument for the UK accepting such regulation in the name of a level European playing field falls away in light of the EU's failure to export the values behind such regulation to the rest of the world.
4. Over the period 2007-12 UK goods exports to the rest of the world grew very much faster than UK goods exports to the rest of the EU for all significant categories of goods apart from oil.
5. Over the period 2007-12 UK service exports to the rest of the world grew much faster than UK service exports to the rest of the EU for most categories of service.
6. 39 per cent of UK-EU trade in goods is in sectors such as chemicals, food and beverages and motor cars where EU markets, including the UK, are protected against imports from the rest of the world by relatively high EU tariffs as shown in Table H below. The effect of this protection is shown by contrasting the UK's £32 billion deficit on trade in these sectors with the rest of the EU in 2012 with its £15 billion surplus on trade in the same sectors with the rest of the world. Exporters in these sectors to the UK from the rest of the EU would have a very strong interest in the UK remaining in customs union with the EU if it withdrew from EU membership.

7. 9 per cent of UK goods exports and 11 per cent of UK service exports are to countries with which the EU has free trade agreements (or, in the case of Turkey, a customs union arrangement) either in force or awaiting ratification. A further 22 per cent of UK goods exports and 31 per cent of UK service exports are to countries, with which the EU is currently negotiating FTAs. These FTAs bring or would bring some economic benefit to the UK economy but less than is generally supposed. If the UK were to leave the EU it could only remain party to them if it negotiated to stay in customs union with the EU on a new inter-governmental basis. It would also be necessary for the EU and its FTA partners to agree to “novate” these FTAs to enable the UK to become a party to them in its own right, which it should be in their strong economic interest to do in order to achieve seamless transitions.

## SEVEN MAIN POINTS

The most important points emerging from the TPRC’s comprehensive analysis of UK trade statistics are as follows:

- 1. UK exports of goods and services to the EU in 2012 accounted for only 42 per cent of total UK exports of goods and services worldwide, after allowing for the so called “Rotterdam–Antwerp effect”. This represented a substantial decline from the 48 per cent level which applied in 2000. The Single Market has therefore clearly been failing the UK.**

Official UK trade statistics overestimate UK goods exports to the EU owing to a statistical distortion known as the Rotterdam–Antwerp effect and described in the panel on page 5. After adjusting for this effect, as shown in Table A below:

- UK goods exports to the EU in 2012 represented 45 per cent of total UK good exports.
- UK service exports to the EU in 2012 represented 37 per cent of total UK service exports.
- UK exports of goods and services to the EU in 2012 represented 42 per cent of total UK goods and services exports.

**TABLE A**

<i>UK exports</i>	Exports to rest of EU <i>£ billion</i>	Exports to rest of world <i>£ billion</i>	Total exports <i>£ billion</i>
Exports of goods in 2012 (as recorded)	149.8 (50.5%)	146.7 (49.5%)	296.5 (100%)
Adjustment for Rotterdam-Antwerp effect	(15.0)	15.0	-
Estimated real exports of goods	----- 134.8 (45.5%) =====	----- 161.7 (54.5%) =====	----- 296.5 (100%) =====
Exports of services in 2012	72.0 (37.2%)	121.4 (62.8%)	193.4 (100%)
Total	----- 206.8 (42.2%) =====	----- 283.1 (57.8%) =====	----- 489.9 (100%) =====

Source: HM Revenue & Customs and The Pink Book 2013

### THE ROTTERDAM-ANTWERP EFFECT

UK Office for National Statistics figures for UK goods exports to Belgium and the Netherlands do not distinguish between goods for consumption or use in Belgium or the Netherlands and goods which are initially shipped to ports such as Rotterdam and Antwerp for onward consignment to other countries. The proportion of UK goods exports to Belgium and the Netherlands whose ultimate destination is elsewhere in the EU or the rest of the world may be estimated on the reasonable assumption that Dutch and Belgian imports per capita from the UK ought to be roughly in line with German and French imports per capita from the UK.

On the reasonable but arbitrary assumption that 50 per cent of such exports are ultimately destined for other EU countries and 50 per cent are ultimately destined for the rest of the world recorded UK goods exports to the rest of the EU would overestimate actual exports to the rest of the EU by around 10 per cent. (See Annex on pages 17-18 for detailed calculations.) But it should be noted that the extent of this distortion, known as the Rotterdam-Antwerp effect, may actually be materially greater or smaller than 10 per cent.

The proportion of UK exports of goods and services accounted for by the rest of the EU has declined steadily since 2000, when it was 48 per cent, as shown in Table B below. The Single Market has therefore clearly been failing the UK.

**TABLE B**

<i>£ billions</i>	2000			2005			2010			2012		
	<i>UK exports to rest of EU</i>	<i>%</i>	<i>Total UK exports</i>	<i>UK exports to rest of EU</i>	<i>%</i>	<i>Total UK exports</i>	<i>UK exports to rest of EU</i>	<i>%</i>	<i>Total UK exports</i>	<i>UK exports to rest of EU</i>	<i>%</i>	<i>Total UK exports</i>
Exports of goods as recorded	106.2	56.8%	187.1	120.4	56.7%	212.2	142.0	53.9%	263.4	149.8	50.5%	296.5
Adjustment for Rotterdam-Antwerp effect	(10.6)			(12.0)			(14.2)			(15.0)		
	-----		-----	-----		-----	-----		-----	-----		-----
Estimated real exports of goods	95.6	51.1%	187.1	108.4	51.1%	212.2	127.8	48.5%	263.4	134.8	45.5%	296.5
Exports of services	33.7	41.2%	81.9	53.8	41.7%	129.1	68.9	37.9%	182.0	72.0	37.2%	193.3
	-----		-----	-----		-----	-----		-----	-----		-----
Total	129.3	48.1%	269.0	162.2	47.5%	341.3	196.7	44.2%	445.4	206.8	42.2%	489.8

Source: HM Revenue & Customs and The Pink Book 2013

**2. Over the period 2007-12 UK exports of both goods and services grew more rapidly to the rest of the world than to the rest of the EU. There are no obvious grounds for asserting that growth in UK exports to the rest of the world has in any way been held back by the UK being in customs union with the EU.**

Over the five year period 2007-12 UK goods exports to the EU have only grown at 3.3 per cent per annum whilst UK service exports to the rest of the EU have only grown at 3.9 per cent per annum, as shown in Table C below. By contrast, over the same period UK goods exports to the rest of the world have grown at 9.5 per cent per annum whilst UK service exports to the rest of the world have grown at 6.6 per cent per annum. There are no obvious grounds for asserting that growth in UK exports to the rest of the world has in any way been held back by the UK being in customs union with the EU.

**TABLE C**

	<i>Period</i>	<i>To rest of EU</i>	<i>To rest of world</i>
Growth rate of UK goods exports	2007-12	3.3% p.a.	9.5% p.a.
Growth rate of UK service exports	2007-12	3.9% p.a.	6.6% p.a.

Source: Tables F and G below

- 3. On current trends the proportion of UK goods and services exports going to the rest of the EU would decline to 39 per cent by 2015 (the General Election year) and 37 per cent by 2017 (the proposed referendum year). Every year there is less and less justification for the UK allowing its international competitiveness to be burdened by submitting to costly EU regulation, particularly in such areas as social, environmental and health & safety policy. Any argument for the UK accepting such regulation in the name of a level European playing field falls away in light of the EU's failure to export the values behind such regulation to the rest of the world.**

If the growth rates of UK exports of goods and services to the rest of the EU and to the rest of the world continued at the rates shown in Table C above, the rest of the EU would only account for 41 per cent of UK goods exports and 35 per cent of UK service exports in 2015, as shown in Table D below. Accordingly, in 2015 aggregate UK exports of goods and services to the rest of the EU would only account for 39 per cent of the UK's total exports of goods and services.

**TABLE D**

	<i>To rest of EU £ billion</i>	<i>To rest of world £ billion</i>	<i>Total £ billion</i>
UK goods exports in 2015	148.6 (41.2%)	212.3 (58.8%)	360.9 (100%)
UK service exports in 2015	80.8 (35.5%) -----	147.1 (64.5%) -----	227.8 (100%) -----
Total UK exports in 2015	229.3 (39.0%) =====	359.4 (61.0%) =====	588.7 (100%) =====

On the same basis the rest of the EU would only account for 38 per cent of UK goods exports and 34 per cent of UK service exports in 2017, as shown in Table E below. Accordingly, in 2017 aggregate UK exports of goods and services to the rest of the EU would only account for 37 per cent of the UK's total exports of goods and services in 2017.

Every year there is less and less justification for the UK allowing its international competitiveness to be burdened by submitting to costly EU regulation, particularly in such areas as social, environmental and health & safety policy. Any argument for the UK accepting such regulation in the name of a level European playing field falls away in light of the EU's failure to export the values behind such regulation to the rest of the world.

**TABLE E**

	To rest of EU £ billion	To rest of world £ billion	Total £ billion
UK goods exports in 2017	158.6 (38.4%)	254.6 (61.6%)	413.1 (100%)
UK service exports in 2017	87.2 (34.3%) -----	167.1 (65.7%) -----	254.3 (100%) -----
Total UK exports in 2017	245.7 (36.8%) =====	421.7 (63.2%) =====	667.4 (100%) =====

Source: Tables E and F below

4. Over the period 2007-12 UK goods exports to the rest of the world grew very much faster than UK goods exports to the rest of the EU for all significant categories of goods apart from oil, as shown in Table F below.

**TABLE F**

**UK GOODS EXPORTS ANALYSED BY CATEGORY AND EU/NON-EU DESTINATION  
2007 AND 2012**

All figures in £ billions	Exports to rest of EU		Exports to rest of world		Total Exports		Exports to rest of EU		Exports to rest of world		Total Exports		Annual growth rate of exports rest of EU 2007-2012	Annual growth rate of exports rest of world 2007-2012	Annual growth rate of exports total 2007-2012
	2007	2007	2007	2007	2012	2012	2012	2012	2012	2012					
FOOD, BEVERAGES AND TOBACCO	8.0	68%	3.8	32%	11.8	5.3%	10.8	60%	7.1	40%	17.9	6.0%	6.2%	13.3%	8.7%
BASIC MATERIALS, COAL, GAS ELECTRICITY, ETC.	5.3	61%	3.4	39%	8.7	3.9%	7.7	61%	4.9	39%	12.6	4.2%	7.7%	7.5%	7.6%
OIL AND OIL PRODUCTS	14.9	70%	6.3	30%	21.2	9.6%	26.8	71%	10.7	29%	37.5	12.6%	12.4%	11.2%	12.1%
SEMI-MANUFACTURED GOODS															
Chemicals	23.3	60%	15.8	40%	39.1	17.7%	29.4	56%	23.2	44%	52.6	17.8%	4.8%	8.0%	6.1%
Others	17.8	60%	11.7	40%	29.5	13.4%	16.6	52%	15.6	48%	32.3	10.9%	-1.3%	6.0%	1.8%
TOTAL SEMI-MANUFACTURED GOODS	41.0	60%	27.5	40%	68.5	31.0%	46.0	54%	38.9	46%	84.9	28.6%	2.3%	7.2%	4.4%
FINISHED MANUFACTURED GOODS															
Clothing and footwear	2.8	76%	0.9	24%	3.7	1.7%	4.0	73%	1.5	27%	5.5	1.8%	7.3%	10.4%	8.1%
Electrical machinery	5.9	58%	4.3	42%	10.2	4.6%	5.7	52%	5.3	48%	11.0	3.7%	-0.7%	4.1%	1.4%
General industrial machinery etc.	4.7	51%	4.5	49%	9.2	4.2%	5.0	42%	6.9	58%	11.9	4.0%	1.1%	8.9%	5.2%
Machinery specialised for particular industries	3.5	48%	3.8	52%	7.3	3.3%	2.8	36%	5.1	64%	8.0	2.7%	-4.1%	6.2%	1.8%
Motor cars	8.6	60%	5.8	40%	14.4	6.5%	8.0	37%	13.4	63%	21.5	7.2%	-1.4%	18.3%	8.3%
Power generating machinery & equipment	4.9	36%	8.7	64%	13.6	6.2%	4.8	24%	15.4	76%	20.3	6.8%	-0.2%	12.2%	8.3%
Professional, scientific & controlling instruments	2.2	38%	3.6	62%	5.8	2.6%	2.8	34%	5.5	66%	8.4	2.8%	5.2%	9.0%	7.6%
Ships and aircraft	3.2	40%	4.8	60%	8.0	3.6%	4.7	41%	6.8	59%	11.5	3.9%	8.0%	7.3%	7.6%
Telecommunications equipment	2.6	55%	2.1	45%	4.7	2.1%	3.0	51%	2.9	49%	5.9	2.0%	3.0%	6.5%	4.6%
Other finished manufactured goods	19.8	59%	13.8	41%	33.6	15.2%	16.7	46%	19.2	54%	35.9	12.1%	-3.4%	6.9%	1.3%
TOTAL FINISHED MANUFACTURED GOODS	58.2	53%	52.3	47%	110.5	50.0%	57.6	41%	82.1	59%	139.7	47.1%	-0.2%	9.4%	4.8%
TOTAL	127.5	58%	93.3	42%	220.8	100.0%	149.8	51%	146.7	49%	296.5	100.0%	3.3%	9.5%	6.1%

Source: HM Revenue & Customs

Note (i): No adjustment has been made in the above table for the Rotterdam – Antwerp effect. Such an adjustment would not affect growth rates.

Note (ii): The total exports figures derived from HM Revenue & Customs sources in the above table may vary slightly from those available in the Pink Book, normally regarded as the prime source of UK government balance of payment statistics. However, the differences are not significant in the overall context.

Note (iii): The percentage figures given in the rest of EU and rest of world columns relate to the total exports column. The percentage figures in the total exports columns relate to the total of all categories of goods for that year.

In particular:

***Food, beverages and tobacco (6.0 per cent of total UK goods exports in 2012)***

- UK food, beverage and tobacco exports to the rest of the world grew at 13.3 per cent per annum, an increase of 87 per cent.
- UK food, beverage and tobacco exports to the rest of the EU grew at 6.2 per cent per annum, an increase of 35 per cent.

***Chemicals (17.8 per cent of total UK goods exports in 2012)***

- UK chemicals exports to the rest of the world grew at 8.0 per cent per annum, an increase of 47 per cent.
- UK chemicals exports to the rest of the EU grew at 4.8 per cent per annum, an increase of 26 per cent.

***Finished manufactured goods (47.1 per cent of total UK goods exports in 2012)***

- UK exports of finished manufactured goods to the rest of the world grew at 9.4 per cent per annum, an increase of 57 per cent.
- UK exports of finished manufactured goods to the rest of the EU declined at 0.2 per cent per annum, a decrease of 1 per cent.

Within the finished manufactured goods category, the contrast between the growth rates of UK exports to the rest of the EU and to the rest of the world for the largest two sub-categories has been particularly stark:

***Power generating machinery and equipment (6.8 per cent of total UK goods exports in 2012)***

- UK exports of power generating machinery and equipment to the rest of the world grew at 12.2 per cent per annum, an increase of 77 per cent.
- UK exports of power generating machinery and equipment to the rest of the European Union declined at 0.2 per cent per annum, a decrease of 2 per cent.

***Motor car exports (7.2 per cent of total UK goods exports in 2012)***

- UK exports of motor cars to the rest of the world grew at 18.3 per cent per annum, an increase of 131 per cent.
- UK exports of motor cars to the rest of the EU declined at 1.4 per cent per annum, a decrease of 7 per cent.



5. Over the period 2007-12 UK service exports to the rest of the world grew much faster than UK service exports to the rest of the EU for most categories of service, as shown in Table G below.

TABLE G

UK SERVICE EXPORTS ANALYSED BY CATEGORY AND EU/NON-EU DESTINATION  
2007 AND 2012

All figures in £ billions	Exports to rest of EU		Exports to rest of world		Total exports		Exports to rest of EU		Exports to rest of world		Total exports		Annual growth rate of exports to rest of EU 2007 - 2012	Annual growth rate of exports to rest of world 2007 - 2012	Annual growth rate of exports total 2007 - 2012
	2007	2007	2007	2007	2012	2012	2012	2012	2012	2012					
Transportation	6.9	42%	9.5	58%	16.4	11.1%	8.1	36%	14.0	64%	22.1	11.4%	3.1%	8.1%	6.1%
Travel	8.8	47%	10.0	53%	18.8	12.7%	10.3	44%	12.9	56%	23.2	12.0%	3.2%	5.2%	4.3%
Communications	2.2	56%	1.7	44%	3.9	2.6%	3.0	50%	3.0	50%	6.0	3.1%	6.6%	11.9%	9.0%
Construction	0.3	33%	0.6	67%	0.9	0.6%	0.3	18%	1.2	82%	1.5	0.8%	-1.9%	15.6%	10.9%
Insurance	0.6	11%	4.9	89%	5.5	3.7%	2.4	16%	12.7	84%	15.1	7.8%	32.2%	20.9%	22.3%
Financial	16.9	39%	26.2	61%	43.1	29.2%	18.0	39%	28.0	61%	46.0	23.8%	1.3%	1.3%	1.3%
Computer and information	3.7	54%	3.1	46%	6.8	4.6%	4.5	48%	5.0	52%	9.4	4.9%	4.0%	9.8%	6.8%
Royalties and license fees	2.3	31%	5.1	69%	7.4	5.0%	3.5	44%	4.5	56%	8.0	4.1%	8.8%	-2.6%	1.6%
Other business services	16.0	39%	24.6	61%	40.6	27.5%	20.0	35%	36.5	65%	56.5	29.2%	4.6%	8.2%	6.8%
Personal, cultural and recreational	0.8	40%	1.2	60%	2.0	1.4%	1.0	29%	2.4	71%	3.4	1.8%	4.2%	15.1%	11.2%
Government	0.8	38%	1.3	62%	2.1	1.4%	0.9	42%	1.3	58%	2.2	1.1%	2.8%	-0.1%	1.0%
<b>Total services</b>	<b>59.4</b>	<b>40%</b>	<b>88.2</b>	<b>60%</b>	<b>147.6</b>	<b>100.0%</b>	<b>72.0</b>	<b>37%</b>	<b>121.4</b>	<b>63%</b>	<b>193.4</b>	<b>100.0%</b>	<b>3.9%</b>	<b>6.6%</b>	<b>5.5%</b>

Source: The Pink Book 2013

Note: The percentage figures given in the exports to rest of EU and rest of world columns relate to the total exports column. The percentage figures in the total exports columns relate to the total of all categories of services for that year.

The only categories of service for which UK exports have grown faster to the rest of the European Union than to the rest of the world are:

**Insurance (7.8 per cent of total UK service exports in 2012)**

- UK insurance exports to the rest of the world grew at 20.9 per cent per annum, an increase of 159 per cent.
- UK insurance exports to the rest of the European Union grew at 32.2 per cent per annum, an increase of 300 per cent. However, this growth was from a small base level of £0.6 billion in 2007 and even in 2012 UK insurance exports to the EU only accounted for 16 per cent of total UK insurance exports.

**Royalties and license fees (4.1 per cent of total UK services exports in 2012)**

- UK royalties and license fees to the rest of the world declines at 2.6 per cent per annum, a fall of 12 per cent.
- UK royalties and license fees to the rest of the European Union grew at 8.8 per cent per annum, an increase of 52 per cent.

- 6 39 per cent of UK-EU trade in goods is in sectors such as chemicals, food and beverages and motor cars where EU markets, including the UK, are protected against imports from the rest of the world by relatively high EU tariffs. The effect of this protection is shown by contrasting the UK’s £32 billion deficit on trade in these sectors with the rest of the EU in 2012 with its £15 billion surplus on trade in the same sectors with the rest of the world. Exporters in these sectors to the UK from the rest of the EU would have a very strong interest in the UK remaining in customs union with the EU if it withdrew from EU membership.**

39 per cent of UK-EU trade in goods is in sectors such as chemicals, food and beverages and motor cars where EU markets, including the UK, are protected against imports from the rest of the world by relatively high EU tariffs, as shown in Table H below. All three are largely controlled by multinational groups or foreign owners. These are the manufacturing sectors for which the UK being “in Europe” really matters. Brief descriptions of each sector are set out in the Panel on page 13.

**TABLE H**

**ANALYSIS OF UK TRADE WITH EU IN MAJOR GOODS CATEGORIES WHERE AVERAGE EU TARIFF IS MORE THAN FOUR PER CENT**

	Average EU tariff (Note (ii))	UK exports to rest of EU 2012 £ billions	UK imports from rest of EU 2012 £ billions	Total UK-EU trade 2012 £ billions
<i>Categories with average EU tariff in excess of 4 per cent</i>				
Chemicals	4.6 %	29.4	34.4	63.8 (17.9%)
Clothing and footwear	10 % (Note (iii))	4.0	5.4	9.4 (2.6%)
Food, beverages and tobacco	Over 20 % (Note (iv))	10.8	26.1	36.9 (10.3%)
Motor cars (Note (v))	10 %	8.0	19.6	27.6 (7.7%)
		-----	-----	-----
<i>SUB-TOTAL</i>		52.2	85.5	137.7 (38.6%)
<i>Categories with average EU tariff less than 4 per cent</i>	Under 4 %	98.0	120.8	218.8 (61.3%)
		-----	-----	-----
<b>TOTAL</b>		149.8	207.0	356.8 (100.0%)
		=====	=====	=====

Source: WTO Tariff Profiles, HM Revenue & Customs

Note (i): No adjustment has been made in the above table for the Rotterdam-Antwerp effect, which may apply to imports as well as exports.

Note (ii): Average EU tariffs in the above table are based on the EU’s simple average bound (i.e. ceiling) tariff rates in the Tariff Profiles on the WTO website. They make no allowance for zero or concessionary tariff rates resulting from EU FTAs or from the EU Generalised System of Preferences for developing countries.

Note (iii): The TPRC’s estimate of 10 per cent for clothing and footwear is based on 11.5 per cent for clothing and 4.2 per cent for footwear. However it should be noted that a high proportion of UK clothing and footwear imports come into the UK at zero or concessionary rates (see Note (ii) above.)

Note (iv): There is no easy way of estimating the EU’s average tariff for the food, beverages and tobacco category as a whole. Average tariffs are over 20 per cent for most sub-categories and range up to 57.6 per cent for dairy products.

Note (v): The figures given above for motor vehicles are for “completely built units”.

For the three largest sectors in Table H above, food, beverages and tobacco, motor cars and chemicals, **the UK had a deficit on trade with the rest of the EU of trade deficit of £31.9 billion in 2012**, as shown in Table I below. This represented 70 per cent of the UK's £45.4 billion aggregate trade deficit with the E in 2012.

**TABLE I**  
**UK IMPORTS FROM THE EU AND EXPORTS TO THE EU IN 2012**

	UK exports to rest of EU	UK imports from rest of EU	UK balance of trade with rest of EU	
	2012 £ billions	2012 £ billions	2012 £ billions	%
<b>Goods</b>				
Food, beverages and tobacco	10.8	26.1	(15.3)	33.7
Motor cars	8.0	19.6	(11.6)	25.6
Chemicals	29.4	34.4	(5.0)	11.0
	-----	-----	-----	
	48.2	80.1	(31.9)	70.3
Other categories of good	101.6	126.9	(25.3)	55.7
	-----	-----	-----	-----
<b>TOTAL</b>	149.8	207.0	(57.2)	126.0
<b>Services</b>	72.0	60.2	11.8	(26.0)
	-----	-----	-----	-----
<b>Total</b>	221.8	267.2	(45.4)	100.0
	=====	=====	=====	=====

*Source:* HM Revenue & Customs and The Pink Book 2013

The effect of EU tariff protection of the UK market is shown clearly by comparing the UK's pattern of trade for food, beverages and tobacco, motor cars and chemicals with the rest of the world with its pattern of trade with the rest of the EU. For these three sectors, **the UK had a £14.7 billion surplus on trade with the rest of the world in 2012**, as shown in Table J below, **compared with its £31.9 billion deficit on trade with the EU**. The contrast between the UK motor car sector's £11.2 billion surplus on trade with the rest of the world and its £11.6 billion deficit on trade with the rest of the EU is particularly striking.

**TABLE J**

**UK IMPORTS FROM THE REST OF THE WORLD AND EXPORTS TO THE REST OF THE WORLD IN 2012**

	<b>UK exports to rest of world 2012 £ billions</b>	<b>UK imports from rest of world 2012 £ billions</b>	<b>UK balance of trade with rest of world 2012 £ billions</b>
<b>Goods</b>			
Food, beverages and tobacco	7.1	10.7	(3.6)
Motor cars	13.4	2.2	11.2
Chemicals	23.2	16.1	7.1
	-----	-----	-----
	43.7	29.0	14.7
Other categories of good	103.0	170.3	( 67.3)
	-----	-----	-----
<b>TOTAL</b>	<b>146.7</b>	<b>199.3</b>	<b>( 52.6)</b>
<b>Services</b>	121.4	59.2	62.2
	-----	-----	-----
<b>Total</b>	<b>268.1</b>	<b>258.5</b>	<b>9.6</b>
	=====	=====	=====

*Source:* HM Revenue & Customs and The Pink Book 2013

From these figures it is evident that if the UK were to determine to leave the EU the European Commission would be under huge pressure from these three sectors to negotiate to keep the UK in customs union with the EU. From the UK economy's perspective there is an argument, for the UK motor car sector at least, that the "sanctuary" nature of its well protected UK-EU home market provides it with a better platform for exporting into the rest of the world than it would have under a pure free trade regime. On the other side there can be no doubt that UK purchasers of goods in the above three categories, both business and personal, are paying higher prices than they would be if UK-EU manufacturers were not protected by EU tariffs as well as EU non-tariff barriers to trade.

From both the UK's and the EU's perspective, the easiest and most seamless way for the UK to leave the EU would be for it to remain in customs union with the EU on a new inter-governmental basis. However, for the UK to be properly prepared for negotiation a full analysis is needed of the economic implications of the UK leaving the EU without any form of preferential trade agreement.

## THE UK'S THREE MAIN PROTECTED SECTORS

### Chemicals

The UK chemicals industry (including pharmaceuticals) consists mainly of multinationals manufacturing in the UK to serve the European market\*. It accounted for 18 per cent of total UK-EU merchandise trade in 2012.

Most of the world's chemical industry believes in free trade. It would have preferred the WTO Uruguay Round (1986-94) to have resulted in the total elimination of all OECD country tariffs for chemicals. But the best that could be achieved was the "quick fix" of the Chemical Tariffs Harmonisation Agreement, which set OECD chemical tariffs at either 6.5 per cent or 5 per cent or zero. This resulted in an average EU tariff rate for chemicals of 4.6 per cent. Chemical tariffs would be reduced further by a successful Doha round, but this is unlikely in the foreseeable future. At present, there is no realistic possibility of a separate sectoral agreement to reduce chemical tariff rates.

The TPRC believes the UK-based chemicals industry would be relatively relaxed if the UK left the EU but stayed in customs union with it on a new inter-governmental basis. However, it seems likely that chemical manufacturers in mainland EU would be negative about the EU letting the UK leave the EU with a new free trade agreement as it would give the UK the potentially significant competitive advantage of being able to reduce or eliminate tariffs on chemical imports from the rest of the world. Furthermore the prospect of the loss of free movement of goods and the need to introduce rules of origin tests would not be welcomed by many in the chemicals industry in both the UK and the EU.

\* Ineos, a former UK company which recently relocated to Switzerland, owns ICI's former Runcorn plant, BP's former Grangemouth plant and three other sites in Britain as well as six other operations elsewhere in the world. It is controlled by a UK national, Jim Ratcliffe.

### Food, beverages and tobacco

The UK food, beverages and tobacco sector accounted for 10 per cent of total UK-EU merchandise trade in 2012. Following the sale of Weetabix to a Chinese investment group and the take-over of Cadbury by Kraft Foods there are no major UK-owned food manufacturing groups left in the UK. Much of the UK beverages sector is now owned by multinational groups such as Diageo and Pernod Ricard although there remains a thriving independent Scotch whisky sector. Overall the UK food and beverage industry is protected by EU tariffs averaging over 20 per cent as well as major non-tariff barriers.

As with the chemical industry the TPRC believes the UK-based foods and beverage industry would be relatively relaxed if the UK left the EU but negotiated to stay in customs union with it on a new inter-governmental basis. But the implications for this essentially protectionist and highly diverse sector of the UK seeking to leave the EU and negotiate a new free trade agreement with it would be complex. At the very least, a major consultation exercise would be required before the FTA approach could be recommended.

### Motor cars

The UK motor cars sector accounted for 8 per cent of total UK-EU merchandise trade in 2012 (excluding components and parts). As is well known, it is now almost entirely foreign owned. In common with motor car manufacturing in all the rest of the EU it is protected by an average EU tariff of 10 per cent as well as by significant non-tariff barriers.

From the major sectoral review exercise the TPRC conducted on this sector in 2007-8 it became clear that most, if not all, players in this important sector would be vehemently opposed to the UK leaving the EU unilaterally. Common tariff protection, free movement of goods and the UK's perceived ability to influence new EU regulation were all important reasons given for the UK staying in the EU.

Even though the importance of EU markets to the UK-based car manufacturing industry has declined sharply since 2007-8, as shown in Table E above, it seems unlikely the sector could be persuaded to agree to the UK's full EU membership being replaced by a conventional free trade agreement. But the TPRC's "Staying in Europe for Trade" approach through a new inter-governmental customs union agreement with full continuing UK voting participation on the Council of Ministers regarding trade matters ought in principle to be capable of winning the support of the industry, when combined with freedom from the burdens of EU regulation in social, environmental and health & safety matters.

- 7. 9 per cent of UK goods exports and 11 per cent of UK service exports are to countries with which the EU has free trade agreements (or, in the case of Turkey, a customs union arrangement) either in force or awaiting ratification, as shown in Table K below. A further 22 per cent of UK goods exports and 31 per cent of UK service exports are to countries with which the EU is currently negotiating FTAs. These FTAs bring or would bring some economic benefit to the UK economy but less than is generally supposed. If the UK were to leave the EU it could only remain party to them if it negotiated to stay in customs union with the EU on a new inter-governmental basis. It would also be necessary for the EU and its FTA partners to agree to “novate” these FTAs to enable the UK to become a party to them in its own right, which it would be in their strong economic interest to do in order to achieve seamless transitions.**

TPRC research suggests that most free trade agreements generate relatively little economic value over the benefits the countries which are party to them obtain through being members of the World Trade Organization. One reason is that as a result of the Uruguay Round some half of world merchandise trade is already subject to zero “most favoured nation” (MFN) tariff rates. Secondly, FTAs tend to exclude high tariff items from their coverage, particularly in the food and agriculture categories. Thirdly, rules of origin can impact materially on the free trade effectiveness of FTAs, as discussed in the TPRC’s research paper on “Rules of Origin in EU Free Trade Agreements”. Fourthly, non-tariff barriers can often continue to block or impede trade even after tariffs have been eliminated, especially in typically relatively high tariff sectors such as chemicals, food, beverages and tobacco and motor vehicles. Fifthly, FTA provisions on rights of commercial presence for services businesses can often turn out to be difficult to enforce in practise, especially behind the state borders of federal states such as the USA, the EU and India\*.

According to a WTO estimate in 2008 only 16 per cent of the merchandise imports of the world’s 20 largest importers were actually on a preferential basis (assuming full utilisation of available preferences). In other words, despite the worldwide proliferation of preferential trade agreements in recent years 84 per cent of world merchandise trade (excluding intra-EU trade) in 2008 was still on a non-discriminatory MFN basis. (*Note: This percentage falls to 70 per cent if intra-EU trade is included.*)

Nevertheless, free trade agreements are perceived of as having high economic importance. In popular discourse they are often spoken of as if they were about pure free trade. And in reality some of the EU’s recent FTAs are genuinely trade liberalising. For example, it is claimed that the EU’s 2010 FTA with South Korea will eventually eliminate tariffs on most industrial and agricultural trade between the EU and South Korea as well as aiming to remove most non-tariff barriers whilst the EU’s FTA with Singapore will result in far-reaching mutual liberalisation of services markets as well as the elimination of most industrial and agricultural tariffs in addition to addressing non-tariff barriers. And even if a new EU-USA FTA increased UK goods and services exports to the USA by only 5 per cent that would lift UK goods exports by £2 billion and UK service exports also by £2 billion.

\* Dr Razeen Sally, the UK’s leading academic expert on trade policy, co-founder and Director of the European Centre for Political Economy in Brussels and a former Senior Lecturer in International Political Economy at the London School of Economics, currently an Associate Professor at the Lee Kuan Yew School of Public Policy at the National University of Singapore, concluded in a monograph for The Institute of Economic Affairs in 2008 (“Trade Policy, New Century”) that there were at that time only three preferential trade agreements in the world which were then genuinely “WTO plus”: the European Union, the North American Free Trade Agreement (NAFTA) and the Australia - New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). It is possible he might now add to that list the EU’s recent free trade agreements with South Korea and Singapore.

**TABLE K**

**ANALYSIS OF UK GOODS AND SERVICES EXPORTS TO COUNTRIES WITH PREFERENTIAL TRADE AGREEMENTS WITH THE EU IN OPERATION, AWAITING RATIFICATION OR UNDER NEGOTIATION**

	UK goods exports in 2012 £ million	Percentage of total UK goods exports in 2012	UK service exports in 2012 £ million	Percentage of total UK service exports in 2012
<b>Countries with free trade agreement (FTA) in operation with EU:</b>				
Chile	649	0.2%	248	0.1%
EEA (Iceland, Liechtenstein, and Norway)	3,851	1.3%	3,238	1.7%
Mexico	1,071	0.4%	554	0.3%
Peru	164	0.1%	115	0.1%
South Africa	2,589	0.9%	2,139	1.1%
South Korea	4,572	1.5%	1,448	0.7%
Switzerland	6,513	2.2%	9,008	4.7%
	-----	-----	-----	-----
<b>Total for countries with FTAs with the EU</b>	<b>19,409</b>	<b>6.5%</b>	<b>16,750</b>	<b>8.7%</b>
<b>Countries which have agreed an FTA with the EU but not yet ratified it:</b>				
Central America (Note (i))	304	0.1%	127	0.1%
Columbia	303	0.1%	372	0.2%
Singapore	4,242	1.4%	2,679	1.3%
Ukraine	581	0.2%	159	0.1%
	-----	-----	-----	-----
<b>Total for countries awaiting ratification</b>	<b>5,430</b>	<b>1.8%</b>	<b>3,337</b>	<b>1.7%</b>
<b>Country in customs union with EU:</b>				
Turkey	3,507	1.2%	1,104	0.6%
	-----	-----	-----	-----
<b>Total for countries with a FTA with the EU in place, or awaiting ratification:</b>	<b>28,346</b>	<b>9.5%</b>	<b>21,191</b>	<b>11.0%</b>
<b>Countries negotiating FTAs with EU:</b>				
Armenia and Georgia	71	0.0%	39	0.0%
Canada	4,363	1.5%	3,937	2.1%
Euromed (Note (ii))	4,197	1.4%	2,132	1.1%
India	4,554	1.5%	2,227	1.2%
Japan	4,579	1.5%	4,508	2.3%
Malaysia	1,482	0.5%	875	0.5%
Mercosur (Note (iii))	3,448	1.2%	1,994	1.0%
Thailand	1,882	0.6%	598	0.3%
USA	40,344	13.5%	42,994	22.2%
Vietnam	292	0.1%	154	0.1%
Western Balkans (Note (iv))	652	0.2%	260	0.1%
	-----	-----	-----	-----
<b>Total for countries negotiating FTAs with EU</b>	<b>65,864</b>	<b>22.0%</b>	<b>59,718</b>	<b>30.9%</b>
<b>All countries with preferential trade agreements with EU in operation or under negotiation:</b>	<b>94,210</b>	<b>31.5%</b>	<b>80,909</b>	<b>41.8%</b>
<b>Other non-EU</b>	<b>55,560</b>	<b>18.5%</b>	<b>40,462</b>	<b>20.9%</b>
<b>Total EU</b>	<b>149,770</b>	<b>50.0%</b>	<b>71,982</b>	<b>37.2%</b>
	-----	-----	-----	-----
<b>Total</b>	<b>299,540</b>	<b>100%</b>	<b>193,353</b>	<b>100%</b>
	=====	=====	=====	=====

Source: HM Revenue & Customs for goods and The Pink Book 2013 for services

**Notes to Table K**

Note (i): Central America consists of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

Note (ii): Euromed consists of Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territory and Tunisia.

Note (iii): Mercosur consists of Argentina, Brazil, Paraguay, Uruguay and Venezuela.

Note (iv): The Western Balkans consists of Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia.

Note (v): No adjustment has been made in the above table for the Rotterdam-Antwerp effect.

So the fact that 10 per cent of the UK's goods exports and 11 per cent of the UK's service exports are to countries with which the UK either benefits from existing EU preferential trade agreements (including the EU - Turkey customs union) or will soon do so from agreements which await ratification, as shown in Table H above, is material. So also is the fact that a further 22 per cent of UK merchandise exports and 31 per cent of UK service exports stand to be covered by EU free trade agreements currently being negotiated with countries like the USA, Canada and Japan if and when they finally come to fruition, as also shown in Table H above.

The UK would clearly lose out to some extent if it ceased to be party to at least some of the above agreements. At the very least, some UK export categories would surely become less competitive in countries where the UK would no longer benefit from EU preferential free trade agreements. Therefore it would be important for the UK to be able to negotiate to remain party to at least the most important of these agreements.

Although there would be significant technical issues to overcome, with mutual goodwill it should not be difficult to "novate" such agreements so that the UK became a separate party to them as part of the UK's process of negotiating to remain in customs union with the EU on a new inter-governmental basis. This would also require the agreement of the EU's FTA partners. Each of the UK, the EU and their FTA partners would have a strong economic interest in achieving seamless transitions.

It should be noted that the importance of the UK remaining party to at least the most important of the EU's preferential trade agreements is one strong extra reason for the UK negotiating to remain in customs union with the EU. The Euro-sceptic dream of the UK breaking away from the EU customs union and becoming free to negotiate its own customised FTAs with English-speaking countries such as the USA, Canada, Australia and South Africa appears unrealistic for three main reasons:

- The UK lacks the recent experience and knowhow to negotiate its own preferential trade deals. Such expertise as it has is divided between no less than four government departments: the Department of Business Innovation and Skills, the Foreign & Commonwealth Office, HM Treasury and the Department for International Development. Its present trade policy capability is limited to its ability to influence EU trade policy through the European Commission, the Council of Ministers and the European Parliament. Its skills in trade negotiation and the conduct of trade disputes were ceded to Brussels in the years immediately following the completion of the Uruguay Round in 1994.

No doubt the UK could re-establish a full trade policy capability in a year or two. But this would mean an unacceptable hiatus in the period immediately following UK withdrawal. During this period the UK would be in the very unsatisfactory position of having to rely solely on the WTO Agreements and whatever free trade agreement it had managed to negotiate with the EU with no preferential trade agreements at all with the countries it had previously benefited from FTAs with through the EU. This would surely have material consequences for quite a number of UK exporting industries.

- FTAs are always time-consuming and difficult to negotiate. Even with a fully re-established trade negotiation capability it could still take the UK two years or more to negotiate any individual FTA in its own right. And negotiating several FTAs in parallel would certainly create additional challenges.
- Further technical difficulties would be likely to arise in the workings of the inter-relationships between the EU's FTAs and the UK's FTAs with individual countries such as South Korea. New rules could no doubt be developed for "cumulation of origin", as has been done by the EU with its Pan Euro-Mediterranean Agreements. But they would add a further degree of complexity to the trade dimension of the UK's withdrawal from the EU.



## ANNEX

### ADJUSTMENT FOR ROTTERDAM-ANTWERP EFFECT

UK Office for National Statistics figures for UK goods exports to Belgium and the Netherlands do not distinguish between goods for consumption or use in Belgium or the Netherlands and goods which are initially shipped to ports such as Rotterdam and Antwerp for onward consignment to other countries. The proportion of UK goods exports to Belgium and the Netherlands whose ultimate destination is elsewhere in the EU or the rest of the world may be estimated on the reasonable assumption that Dutch and Belgian imports per capita from the UK ought to be roughly in line with German and French imports per capita from the UK, as shown in Table I below.

On the arbitrary assumption that 50 per cent of such exports are ultimately destined for other EU countries and 50 per cent are ultimately destined for the rest of the world recorded UK goods exports to the EU would overestimate actual exports to the EU by around 10 per cent, as shown in Tables L and M below. But it should be noted that the actual extent of this distortion, known as the Rotterdam-Antwerp effect, may actually be materially greater or smaller than 10 per cent.

**TABLE L**

	Basis of Calculation	France	Germany	Belgium	Netherlands
UK goods exports in 2012	A	£22.1 billion	£32.7 billion	£14.0 billion	£24.0 billion
Population in 2010	B	64.7 million	81.8 million	10.8 million	16.6 million
Goods imports per capita from UK	C = B/A	£341	£400	£1,296	£1,445
Assumed "real" imports per capita from UK	D			£400	£400
Estimated goods imports from UK for retention	E = D x B			£4.3 billion	£6.6 billion
Estimated goods imports from UK for onward transition to other countries	F = A - E			£9.7 billion	£17.3 billion
Assumed good imports from UK for ultimate destinations elsewhere in EU	G = 50% of F			£4.8 billion	£8.7 billion
Assumed good imports from UK for ultimate destinations in rest of world	H = 50% of F			£4.8 billion	£8.7 billion

**TABLE M**

	<b>UK goods exports</b>
	2012 <i>£ billion</i>
Recorded UK goods exports	149.8 =====
UK goods exports to Belgium assumed to be for ultimate destinations outside EU	4.8
UK goods exports to Netherlands assumed to be for ultimate destinations outside EU	8.7 -----
Assumed Rotterdam – Antwerp effect (9.0 per cent.)	13.5 =====
<b>For the purpose of this Research Paper the Rotterdam–Antwerp effect has been rounded up to 10 per cent.</b>	

*Note:* The above methodology for estimating the statistical distortion arising from the Rotterdam – Antwerp effect was originally developed by Global Britain (ref. Global Britain Briefing Note No. 64, 7<sup>th</sup> January 2011).