

# Global Britain Briefing Note

No 52

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## UK plc's Export Growth is Coming From Outside the EU

*Trends discernible in the data time-series set out in the Pink Book 2008*

*suggest that, by the end of the next Parliament,*

*around two-thirds of British exports will be going outside EU-26*

- The proportion of UK exports going to the other 26 EU countries is shrinking. *Table 1*
- The proportion of UK exports going to the other 26 EU countries is **well under half of** UK worldwide exports – even on the unadjusted official statistics produced by the Office for National Statistics (“ONS”), which overstate UK exports to the EU. In 2007, the real adjusted proportion is likely to be below 40% (see Appendix). *Table 1*

**Table 1: Proportion of Worldwide British Exports<sup>1</sup> Going to the EU<sup>2</sup>**

Year	'99	2000	'01	'02	'03	'04	'05	'06	'07
Percentage	51.6	50.9	52.4	52.3	50.8	49.2	47.3	48.8	<b>46.9</b>
<i>1: Exports of Goods &amp; Services plus Receipts of Income &amp; Transfers</i>									
<i>2: EU-26: the 26 countries which are the UK's fellow-EU-members</i>									
<i>NB: figures not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortion – see Appendix</i>									
<i>Source: Table 9.2, p. 136, The Pink Book 2008, <a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a> &gt; Virtual Bookshelf &gt; Economy &gt; United Kingdom Balance of Payments &gt; The Pink Book</i>									

- According to the unadjusted official data, over the period 1999-2007 inclusive, UK exports to the world **OUTSIDE the EU** grew at a rate **37% faster** than that of UK exports to EU-26. *Table 2*

**Table 2: Rate of Growth<sup>1</sup> of British Exports<sup>2</sup>, 1999 - 2007**

	Percentages <sup>1</sup>	Index
To EU-26	6.91%	100
To Rest of World	9.48%	137
<i>1: Average annual compound growth rate, 1999 – 2007 inclusive</i>		
<i>2: Exports of Goods &amp; Services plus Receipts of Income &amp; Transfers</i>		
<i>Source: The Pink Book 2008 (see footnote to Table 1)</i>		
<i>NB: figures not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortion - see Appendix</i>		

- Even within the geographically-defined area of Europe, there are big differences in the growth rates of UK exports to its component regions. Exports to EFTA **grew 58% faster** than to the EU, while exports to other European states (including Russia & Turkey) **grew 2.6 TIMES faster** than to the EU. *Table 3*

<b>Table 3: Rate of Growth<sup>1</sup> of British Exports<sup>2</sup> to “Europe”, 1999 - 2007</b>		
	<b>Percentages<sup>1</sup></b>	<b>Index</b>
To EU-26	6.91%	100
To EFTA <sup>3</sup>	10.94%	158
To other European States/Russia	17.97%	260
<i>1: Average annual compound growth rate, 1999 – 2007 inclusive</i>		
<i>2: Exports of Goods &amp; Services plus Receipts of Income &amp; Transfers</i>		
<i>3: Switzerland, Norway, Iceland, Lichtenstein</i>		
<i>Source: The Pink Book 2008 (see footnote to Table 1)</i>		
<i>NB: figures not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortion – see Appendix</i>		

- Outside Europe, over the 1999-2007 period, British exports to many developed & developing countries grew significantly faster than to EU-26: for example, 30% faster in the case of the USA, 80% faster in the case of India *Table 4*

<b>Table 4: Rate of Growth<sup>1</sup> of British Exports<sup>2</sup> to Selected Regions/Countries, 1999 - 2007</b>		
	<b>Percentages</b>	<b>Index</b>
To EU-26	6.91%	100
To Canada	8.06%	117
To USA	8.96%	130
To Singapore	11.33%	164
China/Hong Kong	10.84%	157
To India	12.46%	180
<i>1: Average annual compound growth rate, 1999 – 2007 inclusive</i>		
<i>2: Exports of Goods &amp; Services plus Receipts of Income &amp; Transfers</i>		
<i>Source: The Pink Book 2008 (see footnote to Table 1)</i>		
<i>NB: figures not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortion – see Appendix</i>		

- If, between 2008 and 2015, the same respective 1999-2007 growth rates apply in respect of British exports to EU-26 & to the Rest of the World, even on the “official” figures (which overstate UK exports to the EU – see Appendix), the 2015 split of UK worldwide exports is likely to be in the region of 60% to the non-EU world, 40% to EU-26. After adjustment for the Rotterdam-Antwerp Effect & the Netherlands Distortion (see Appendix), the real proportion in 2015 could be, say, **two-thirds to the non-EU world**, one-third to EU-26. Such a split is consistent with the contrasting demographic trends of Continental Europe and the non-EU world (see **Global Britain Briefing Note No 51, Contracting Market for British Exporters**, 18.9.08) *Table 5*

<b>Table 5: UK Exports<sup>2</sup>: Projected Split (in 2007 values) between EU-26 &amp; Rest of World in 2015 assuming 2008 – 2015 growth rate is same as 1999-2007 growth rate<sup>1</sup></b>			
	<b>2007 actual</b>	<b>2015 projected</b>	<b>2015 projected</b>
To EU-26	£ 313.92 bn	£ 535.63 bn	42%
To Rest of World	£ 355.82 bn	£ 734.17 bn	58%
<i>To Whole World</i>	<i>£ 669.75 bn</i>	<i>£ 1269.80 bn</i>	<i>100%</i>
<i>1: Average annual compound growth rate, 1999 – 2007 inclusive</i>			
<i>2: Exports of Goods &amp; Services plus Receipts of Income &amp; Transfers</i>			
<i>Source: The Pink Book 2008 (see footnote to Table 1)</i>			
<i>NB: figures not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortion – see Appendix</i>			

- Over the 2001-2007 period, on average, the UK current account (i.e. “trade”) deficit with EU-26 accounted for 79% of the UK current account deficit with the whole world. *Table 6*
- The UK current account deficit with EU-26 has grown spectacularly since 2001. The 2007 deficit with the whole world, of £ 53 bn, represented 3.8% of UK GDP, a proportion exceeded only three times in the last sixty-one years: in 1974 (two years before the IMF bail-out) and in 1988 & 1999 (three years before sterling’s ejection from the ERM). *Table 6*

<b>Table 6: UK current account balances with EU-26 &amp; Rest of World, 2001 - 2007</b>							
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Balance UK/EU-26 £ bn	+ 1.1	(9.1)	(22.1)	(28.8)	(39.5)	(34.7)	(39.6)
Balance UK/Rest of World £ bn	(22.2)	(9.5)	+4.0	+3.6	+6.8	(10.4)	(13.0)
Balance UK/Whole World £ bn	(21.1)	(18.7)	(18.3)	(25.2)	(32.7)	(45.0)	(52.6)
<i>UK-EU 26 Deficit as proportion of UK-World Deficit</i>	<i>(5%)</i>	<i>48%</i>	<i>120%</i>	<i>114%</i>	<i>121%</i>	<i>77%</i>	<i>75%</i>
<i>Source: The Pink Book 2008 (see footnote to Table 1)</i>							
<i>NB: figures not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortion – see Appendix</i>							

- Meanwhile, the inexorable growth in British gross & net **cash** contributions to “Brussels” continues. *Table 7*

<b>Table 7: UK Gross &amp; Net Cash Contributions To EU: £ bn</b>									
	'99	'00	'01	'02	'03	'04	'05	'06	'07
UK Payments to EU (“debits”)	11.8	12.2	11.3	11.8	13.0	13.1	15.0	15.4	15.8
UK Receipts from EU (“credits”)	6.8	5.9	8.3	7.1	8.0	8.4	9.1	9.3	8.4
<b>UK Net Contribution to EU</b>	<b>4.9</b>	<b>6.3</b>	<b>3.0</b>	<b>4.7</b>	<b>5.0</b>	<b>4.7</b>	<b>5.9</b>	<b>6.1</b>	<b>7.3</b>
<i>Source: The Pink Book 2008 (see footnote to Table 1)</i>									

In 2007, assuming British population of 60 million, the UK net *cash* contribution to the EU Budget of £ 7.3 bn is equivalent to £ 122 for every man, woman & child in the country. Although these cash contributions are substantial, they represent only a minor part (one eighth or lower) of the yearly annual net cost to the UK economy of belonging to the EU<sup>#</sup>.

As a result of the deal struck by Prime Minister Blair in December 2005, in which he partially gave up the Fontainebleau rebate negotiated in 1984 by Prime Minister Thatcher, the UK Net Contribution in 2013 is estimated\* to be 2.3 times the 2007 amount, or over £ 16 bn.

# See “A Cost Too Far?”, by Ian Milne, Civitas, July 2004, available at [www.globalbritain.org](http://www.globalbritain.org) > Publications by Global Britain authors.

\*See “UK Contribution to EU Budget to Rise to £ 71 billion”, Open Europe, 16<sup>th</sup> November 2007 [www.openeurope.org.uk](http://www.openeurope.org.uk) > Research

## **Appendix**

### **The Rotterdam-Antwerp Effect & the Netherlands Distortion**

The official ONS data significantly overstates 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, though, as far as we know, only **Global Britain** has attempted to estimate the magnitude of the distortions. The Rotterdam-Antwerp Effect is discussed on page 197 of the ONS’s *The Pink Book 1998*.

The Rotterdam-Antwerp Effect arises because the ONS and its fellow-bodies, 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.

The magnitude of these distortions is illustrated in Table 8, which, in 2007, on the basis of the official data, shows each Dutch or Belgian person apparently consuming three or four times as many British imports as a German or French person. Table 8 also shows each Luxemburger apparently consuming around 40 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 roughly similar. The “excess” British imports apparently being consumed by the Dutch, Belgians & Luxemburgers (compared with, say, 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.

<b>Table 8: The Rotterdam-Antwerp Effect &amp; The Netherlands Distortion: their effect on the “official” trade statistics</b>					
	<b>Germany</b>	<b>France</b>	<b>Netherlands</b>	<b>Belgium</b>	<b>Luxembourg</b>
<b>A: 2007 UK Exports<sup>1</sup> to:-</b>	£ 52.37bn	£47.31bn	£42.93bn	£21.37bn	£13.59bn
<b>B: 2007 populations<sup>2</sup> mn</b>	82.27	61.71	16.38	10.63	0.48
<b>A/B: UK exports, per capita of receiving country:-</b>	£ 637	£ 770	£ 2620	£ 2010	£ 28312
<i>1: Goods, Services, Income, Transfers. Source: The Pink Book 2008 (see footnote to Table 1)</i>					
<i>2: Source: World Bank: World Development Indicators Database (quoted In Global Britain Briefing Note No 50, <a href="http://www.globalbritain.org">www.globalbritain.org</a>)</i>					
<i>See also Global Britain Briefing Note No 32: Foreign Direct Investment: The Netherlands Distortion: 11.9.2004, <a href="http://www.globalbritain.org">www.globalbritain.org</a></i>					

The effect of these distortions is to reduce the proportion of worldwide UK exports going to EU-26 by an estimated 15%, from the reported unadjusted percentage of 46.9% in 2007 (see Table 1) to an estimated real adjusted percentage of below 40%.

# Global Britain

## *Founders*

**Lord Stoddart of Swindon**  
(Independent Labour)

**Lord Pearson of Rannoch**  
(United Kingdom Independence Party)

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

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End of this Briefing Note:-

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