HOUSE OF COMMONS
LIBRARY

BRIEFING PAPER

Number 06091, 13 June 2016

In brief: UK-EU economic relations

By Dominic Webb and Matthew Keep

Inside:

Contents

Contributing Authors: Dominic Webb, Economic Policy and Statistics Section, Section 1-3 and 5-6
Matthew Keep, Economic Policy and Statistics Section, Section 4

Summary

Please note: this briefing note is no longer being updated. Information on the EU Budget and the UK's trade with the EU can be found in these briefing papers:

EU Budget and the UK's contribution

Statistics on UK-EU trade

On Wednesday 15 June, MPs will take part in an Opposition Day debate on the "economic benefits of UK membership of the EU." This note sets out some basic figures on the UK's economic relations with the EU.

This note includes figures on UK trade with the EU and estimates of the number of UK jobs associated with that trade. It also includes data on foreign direct investment, the UK's contribution to the EU Budget and some estimates of the cost of EU regulation to the economy. It also includes some estimates of the overall cost or benefit to the UK of EU membership. This note does not seek to cover all aspects of the UK's economic relations with the EU. For example, the effects of immigration on wages, employment and the public finances are not considered.

The EU, taken as a whole, is the UK's major trading partner, accounting for 44% of exports and 53% of imports of goods and services in 2015. The share of UK trade accounted for by the EU 28 is lower than a decade ago. Some argue that the share of UK trade accounted for by the EU is exaggerated by the "Rotterdam effect" whereby trade recorded as being with the Netherlands is actually with non-EU countries. While this effect cannot be quantified, it does not alter the fact that the EU is the UK's main trading partner. Even if all trade with the Netherlands were excluded, the EU would still account for 41% of the UK's goods exports and 47% of goods imports.

Both the current and previous governments have stated that over three million jobs are linked to exports to the EU. This is not the number of jobs linked to membership of the EU as some trade with EU countries would still take place if the UK were to leave the EU. The methodology behind this estimate has come under scrutiny.

The EU is a major source of inward investment into the UK. In 2014, EU countries accounted for £496 billion of the stock of inward Foreign Direct Investment, 48% of the total. A 2015 survey by EY found that the UK attracted more FDI projects than any other European country in 2014.

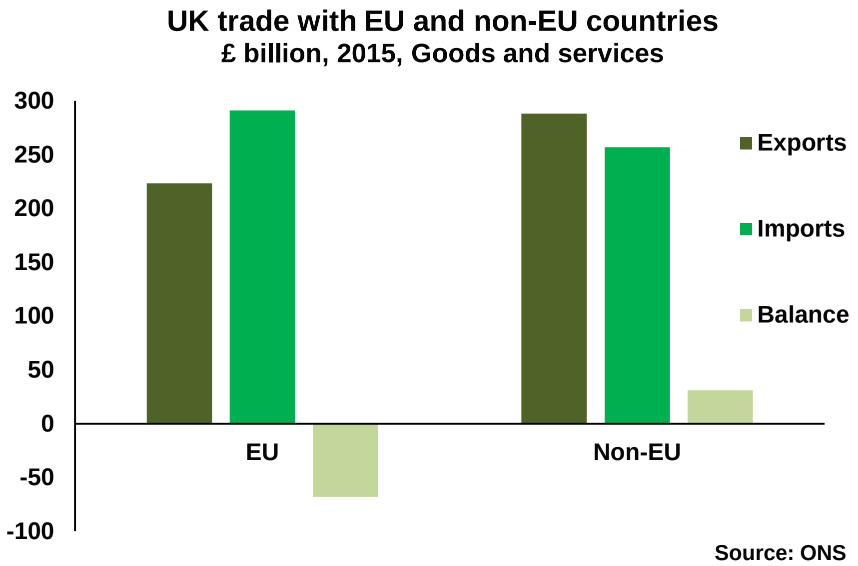
The UK's net contribution to the EU Budget in 2015 is estimated at £8.5 billion, up from £4.3 billion in 2009 and down from £9.8 billion in 2014. It is forecast to fluctuate between £11.2 billion and £7.3 billion a year between 2016 and 2020.

Various studies have attempted to quantify the economic benefit or cost to the UK of its membership of the EU. This is a very difficult exercise and depends on a wide range of assumptions. Estimates vary significantly. The Institute for Fiscal Studies (IFS) has commented that "there is an overwhelming consensus among those who have made estimates of the consequences of Brexit … that it would reduce national income in both the short and long runs." Supporters of Brexit argue that the economic consensus has often been wrong in the past.

A 2015 study by Open Europe found that the cost of the 100 most burdensome EU regulations was £33.3 billion a year. The Treasury Committee has pointed out that this is an estimate of the cost to firms of compliance with the 100 most burdensome EU regulations. It is not the net economic cost of regulation or the savings to business arising from Brexit.

1. Trade

In 2015, the UK exported £223 billion of goods and services to other EU member states. This is equivalent to 43.7% of total UK exports. Goods and services imports from the EU were worth £291 billion (53.1% of the total) in 2015. The UK had a trade deficit of £68 billion with the EU in 2015 but a surplus of £31 billion with non-EU countries.[1]



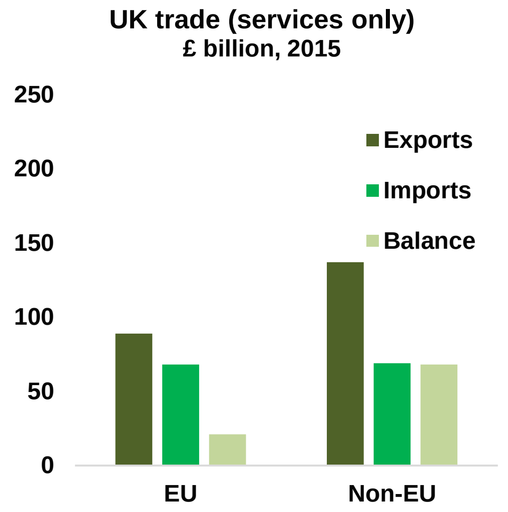
UK trade with EU and non-EU countries 2015
Goods and services

	Exports		Imports		Balance
	£ billion	%	£ billion	%	£ billion
EU	223	44%	291	53%	-68
Non-EU	288	56%	257	47%	+31
Total	512	100%	548	100%	-37

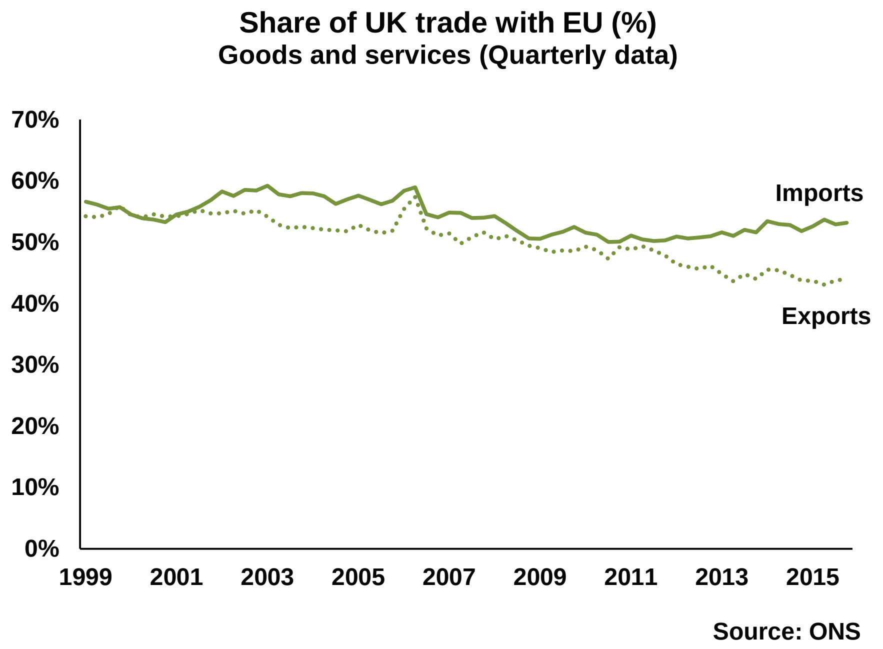
Source: ONS Balance of Payments Statistical Bulletin, 31 Mar 2016, Tables B & C

The two charts below show UK trade with EU and non-EU countries split between goods and services. The UK had a deficit with both EU and non-EU countries in goods and a surplus with both groups in services.

[1] ONS Statistical Bulletin, Balance of Payments: Oct to Dec and annual 2015, 31 March 2016, Tables B and C



The EU as a bloc is by far the UK's largest trading partner. Exports to the US were £95.1 billion and exports to China £15.9 billion in 2015.[2] The share of UK exports accounted for by the EU fell from 55% in 2002 to 44% in 2015. The EU accounted for 58% of UK imports in 2002. This fell to 51% in 2011 but increased again to 53% in 2015.[3]



The Appendices at the end of this note show a time series of data on UK trade with the EU and UK trade with the individual member states of the EU in 2014.

Further information can be found in an ONS article, How important is the European Union to UK trade and investment? 26 June 2015 and in ONS UK Perspectives 2016: Trade with the EU and beyond, 25 May 2016.

2 ONS, UK Economic Accounts, Quarter 4 2015, Table B6B
3 These figures are for the EU28

The Rotterdam effect

It has been claimed that the importance of the UK's trade with the EU is exaggerated by "the Rotterdam effect". This refers to the fact that the UK does a large amount of trade with the Netherlands.[4] It has been argued that some of this trade may ultimately be with countries outside the EU, for example if UK goods are shipped to China via Rotterdam. If this is the case, and some of the goods bound eventually for China are recorded as exports to the Netherlands, the volume of UK trade with the EU will be overstated. However, if trade with the Netherlands is ultimately with another EU member state, the volume of trade with the EU will not be affected. An article published by the ONS explains the Rotterdam effect as follows:

> The Rotterdam effect is the theory that trade in goods with the Netherlands is artificially inflated by those goods dispatched from or arriving in Rotterdam despite the ultimate destination or country of origin being located elsewhere.
>
> Some commentators feel that the Rotterdam effect distorts the UK's trade relationship with EU and non-EU countries. For example, oil exported from Saudi Arabia to Rotterdam and re-exported to the UK (possibly without processing) may be counted as an EU import rather than a non-EU import. Conversely, a product exported by the UK to Rotterdam and subsequently transited to a non-EU country may be counted as an export to the EU rather than the rest of the world.[5]

The ONS has said that the scale of this effect is unknown. It published 2013 estimates assuming that either 50% or 100% of recorded UK trade in goods with the Netherlands should be excluded from the EU total. The chart below updates this using 2015 data.

Sources: House of Commons Library based on ONS data

This shows that if all goods trade with the Netherlands is counted as EU trade, then 46.6% of UK exports went to the EU and 54.7% of imports came from the EU in 2015. If, to take an extreme assumption, all trade with the Netherlands is excluded from the EU total, these figures fall to 40.7% for exports and 46.9% for imports. If 50% of trade with the Netherlands is excluded, the figures are 43.6% for exports and 50.8% for imports. This 50% assumption is described by ONS as "perhaps a more realistic assumption" but also "perhaps towards the top end of the range".

[4] ONS, UK Trade, 9 December 2016, Tables and 2 and 11. In 2015, UK exports of goods to the Netherlands were worth £17.0 billion, 13% of total exports of goods to the EU, and more than the UK exported to Ireland, Italy or Spain

[5] ONS, UK Trade in goods estimates and the Rotterdam effect, 6 February 2015

1.1

2. UK jobs associated with EU trade

Both the current and previous governments have stated that over three million jobs are linked to the export of goods and services to the EU. The Treasury has recently published an estimate that around 3.3 million jobs are linked, directly or indirectly, to UK exports to other EU countries.[6] Under the previous Labour Government, a figure of 3.5 million was quoted:

> Mr. Clifton-Brown: To ask the Chancellor of the Exchequer what estimate he has made of the number of UK jobs which are contingent upon UK exports to the EU. [180268]
>
> Angela Eagle: The Government estimate around 3.5 million jobs in the UK are linked, directly and indirectly, to the export of goods and services to the European Union.[7]

The methodology behind this estimate was explained in the following PQ:

> The estimate of 3.5 million jobs linked to trade with the European Union is based on the assumption that the share of UK employment linked to trade with the EU is equal to the share of total UK value added (GDP) generated in the production of goods and services exported to the EU.
>
> The calculation uses data from UK Input-Output tables to estimate the proportion of UK value-added content generated in exports of goods and services and applies this to the values of UK exports to the EU. This is then divided by total UK GDP and the resultant proportion then applied to the total UK labour force to estimate the proportion of the labour force linked to EU exports on a value-added basis.[8]

It is important to note that this estimate is the number of jobs related to trade with other EU member states. This is not the same as saying that over three million jobs are dependent on the UK's EU *membership*, since some trade with EU countries would take place even if the UK withdrew from the EU. In response to a Freedom of Information request, the Treasury made this point, telling Open Europe that the 3.3 million figure was "not an estimate of the impact of EU membership on employment".[9] The three million figure has also come under scrutiny with the BBC's Reality Check describing the methodology behind it as "a bit suspect".[10]

An estimate of the number of jobs created or safeguarded by FDI projects from the EU is given in the table below.[11]

Number of inward FDI projects originating from EU recorded by UKTI

	Projects	New Jobs	Safeguarded Jobs
2012/13	504	15,399	35,073
2013/14	564	20,432	22,805
2014/15	658	28,250	6,686

Source: UKTI projects database. Figures given in response to PQ 17379 1 Dec 2015

6 HM Government, HM Treasury analysis: the long-term economic impact of EU membership and the alternatives, Cm 9250, April 2016, p65
7 HC Deb 21 January 2008 c1565W
8 HL Deb 10 February 2014 c96WA
9 HM Treasury, FoI response to Open Europe on jobs related to trade with the EU, 24 July 2014
10 BBC EU referendum reality check website, It's that three million jobs claim again, 10 March 2016.
11 PQ 17379 1 December 2015

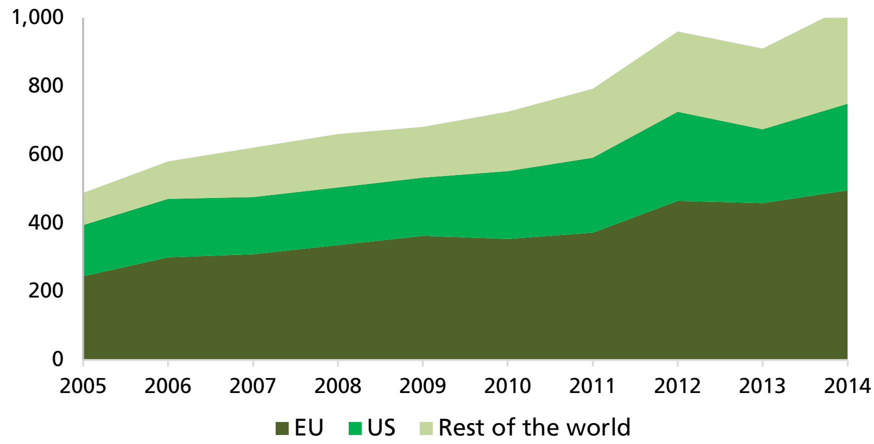
3. Investment

The UK is a major recipient of inward foreign direct investment (FDI) and also an important investor in overseas economies. The UK had the third highest stock of inward FDI in the world in 2014, behind the US and China.[12]

In 2014, EU countries accounted for just under half the stock of FDI in the UK (£496 billion out of a total of £1,034 billion, 48%).[13] This compares with 24% from the US and 28% from other countries. The share accounted for by the EU has fluctuated between 47% and 53% over the last decade. In terms of UK investment abroad, the EU accounted for 40% of the total UK FDI stock in 2014.[14]

There are two measures of Foreign Direct Investment (FDI). The stock measure records the accumulated value of all past investment in the UK from international investors. The flow measures the amount being invested each year.

Inward FDI into the UK by source
Stock, £ billion



Source: ONS

The EU accounted for only 19% of net FDI flows into the UK in 2014 (compared to 55% from the US). The flow measure can change rapidly year on year, and can be heavily skewed by one-off events such as mergers and acquisitions. Between 2005 and 2014, the EU accounted for 44% of FDI flows into the UK.

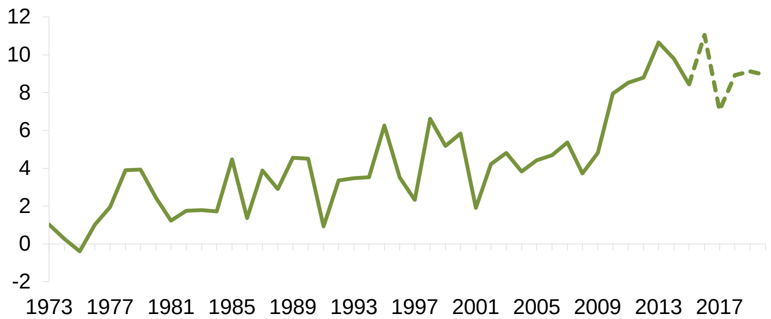
The UK continues to be seen as a very attractive place for foreign direct investment. According to the EY 2015 European Attractiveness Survey, the UK attracted more FDI projects than any other European country in 2014 (887 projects compared with 763 in Germany and 608 in France). According to the survey, these investments generated over 30,000 jobs, again more than any other country in Europe.[15]

12 UK Trade and Investment, Inward Investment Report 2014/15, p4
13 ONS Statistical Bulletin, Foreign Direct Investment Involving UK Companies 2014, 3 December 2015
14 ONS Statistical Bulletin, Foreign Direct Investment Involving UK Companies 2014, 3 December 2015
15 EY, European attractiveness survey 2015

4. UK contributions to the EU Budget

The UK's net contributions to the EU Budget since 1973 are shown in real terms in the chart. Gross and net contributions, and public sector receipts from the Budget are shown in the table below. More details on the EU Budget can be found in the Library briefing *EU budget and the UK's contribution.*

UK annual net contribution to EU Budget
£ billion, real terms, 1973-2015 and OBR forecasts 2016-20



As with other Member States, the UK's gross contribution to the EU Budget is a function of VAT receipts, gross national income, customs duties and levies on sugar production. Uniquely among the Member States, the UK has benefitted from an abatement – often referred to as a rebate – on its EU Budget contributions since 1985. This is calculated according to a formula which in essence used to mean that the UK's net contribution was reduced by 66%, relative to what it would be without the abatement. However, certain elements from the Budget are excluded from the deduction, including EU overseas aid, and from 2009 *non-agricultural expenditure in new Member States*. This latter development, the effect of which was phased in up to 2011, largely accounts for the sharp increase in the UK's net contribution.

UK contributions to, and receipts from, the EU budget, £ billion, 2009 - 2020

	Gross Contribution	Rebate	**Total contribution (after rebate)**	Public sector receipts	**Net contribution**
2009 (outturn)	14.1	-5.4	**8.7**	-4.4	**4.3**
2010 (outturn)	15.2	-3.0	**12.2**	-4.8	**7.4**
2011 (outturn)	15.4	-3.1	**12.2**	-4.1	**8.1**
2012 (outturn)	15.7	-3.1	**12.6**	-4.2	**8.5**
2013 (outturn)	18.1	-3.7	**14.5**	-4.0	**10.5**
2014 (outturn)	18.8	-4.4	**14.4**	-4.6	**9.8**
2015 (estimated)	17.8	-4.9	**12.9**	-4.4	**8.5**
2016 (forecast)	20.5	-4.8	**15.7**	-4.5	**11.2**
2017 (forecast)	18.0	-6.1	**11.9**	-4.6	**7.3**
2018 (forecast)	18.6	-4.4	**14.1**	-4.8	**9.4**
2019 (forecast)	19.8	-4.7	**15.0**	-5.2	**9.8**
2020 (forecast)	20.3	-5.1	**15.2**	-5.4	**9.8**

Sources:
HM Treasury, European Union Finances, latest edition published December 2015, Cm 9167
OBR. Economic and Fiscal Outlook - March 2016, Supplementary Fiscal Tables, Table 2.26
OBR. Economic and Fiscal Outlook - March 2016, Supplementary Economy Tables, Table 1.9

Private sector receipts

The Treasury's figures, shown above, only capture EU receipts that are received by the UK Government. However, the EU provides some funding directly to recipients in the private sector and other non-governmental organisations such as Universities. Data on these receipts are less timely, but recently they have been around £1 billion - £1.5 billion a year. If these are taken into account, the Treasury estimates that the UK's average net contribution to the EU budget was £7.1 billion between 2010 and 2014.[16]

Brexit: the UK's contribution and the public finances

There has been debate during the EU referendum campaign over the impact on the UK's public finances of leaving the EU. If the UK were to leave the EU it is likely that its contributions would decrease: negotiations over the UK's exit from the EU would determine the extent to which this happens. However, as the Treasury Committee highlights, other economic impacts may prove more significant for the public finances than the saving from reduced budget contributions:

> If leaving the EU has a substantial positive or negative effect on the economy as a whole–as many advocates of leaving or staying believe it will–the consequent impact on the public finances is likely to be far more significant than the size of any saving from the EU's budget contributions.[17]

Box 1: Is the UK's contribution equivalent to £350 million per week?

Vote Leave – the official campaign for a leave vote in the EU referendum – states that the UK's contribution to the EU budget is equivalent to £350 million per week. This figure is reached by dividing the UK's annual gross contribution of around £19 billion by 52 weeks. The figure does not account for the rebate or any receipts from the EU budget.

Does the UK send the EU £350 million per week?

The rebate is applied before the UK makes its contribution to the EU so the UK doesn't 'send' the gross contribution of £19 billion or £350 million per week.[18] Once the rebate is taken into account the UK makes a contribution equivalent to around £275 million a week in 2014.[19]

The Institute for Fiscal Studies says that "ignoring the rebate is clearly inappropriate. It is equivalent to suggesting that were the UK to leave the EU and not make any financial contribution to the EU's budget, then remaining EU members would continue to pay the rebate to the UK."[20]

In defence of using a pre-rebate figure senior officials in Vote Leave suggest that the rebate is open to negotiation. They quote the Chancellor who, in evidence to the Treasury Committee in December 2014, said that the rebate was subject to "negotiation" and "discussion". At the time the Committee concluded that the Chancellor had "exaggerated the extent of ambiguity surrounding the rebate".[21]

Can £350 million per week be spent on other priorities?

Vote Leave claims that if the UK were to leave the EU the UK Government could spend the £350 million on other priorities, such as the NHS.[22] Such claims are described by the Chair of the UK Statistics Authority – Sir Andrew Dilnot – as potentially misleading.[23]

The Treasury Committee suggests that the UK's net contribution is a more realistic measure of the money available for funding other priorities after Brexit. The net contribution accounts for the receipts

---

16 HM Treasury, The long-term economic impact of EU membership and the alternatives, April 2016 Table 1.B
17 Treasury Committee, The economic and financial costs and benefits of the UK's EU membership, 27 May 2016, HC 122 2016-17 para 37
18 Full Fact, The UK's EU membership fee, February 2016
19 Institute for Fiscal Studies (IFS), Brexit and the UK's Public Finances, May 2016, page 1
20 IFS. Brexit and the UK's Public Finances, May 2016, page 1
21 Treasury Committee, The economic and financial costs and benefits of the UK's EU membership, 27 May 2016, HC 122 2016-17 para 27
22 For instance see http://www.voteleavetakecontrol.org/issues
23 UK Statistics Authority, Letter from Sir Andrew Dilnot to Rt Hon Norman Lamb MP, 21 April 2016; Treasury Committee, The economic and financial costs and benefits of the UK's EU membership, 27 May 2016, HC 122 2016-17 para 32

the UK receives from the EU for areas such as agriculture and economic development. Vote Leave has pledged to protect groups receiving these receipts if the UK leaves the EU. This pledge, taken together with the issue of the rebate, left the Treasury Committee to conclude that "the money available to fund other priorities after Brexit, such as schools and hospitals, would be much lower, and probably closer to the UK's net contribution of £110 million per week than it is to £350 million."[24]

[24] Treasury Committee, The economic and financial costs and benefits of the UK's EU membership, 27 May 2016, HC 122 2016-17 paras 32-37

5. Cost of EU regulation to the UK economy

Various attempts have been made to estimate the cost to the UK economy of EU regulation. For example, in March 2015, Open Europe estimated that the cost to the economy of the 100 most burdensome EU regulations was £33.3 billion a year. Open Europe claimed that the benefits of these regulations, estimated in Government Impact Assessments at £58.6 billion a year, have been vastly over-stated.[25] Commenting on these figures, the Treasury Committee said:

> £33.3bn, or £600m per week, is an estimate of the total cost to firms of complying with the top 100 most ‹burdensome› EU regulations. It is not the net economic cost of regulation, nor is it a measure of the savings that would accrue to businesses as a result of Brexit. To assert this is misleading.[26]

In November 2013 the CBI published a report on EU membership. On the issue of regulation, this said:

> Business is clear that any Single Market needs commonly agreed rules, to allow full access to the market on equal terms. Removing non-tariff and regulatory barriers between member states is one of the most important features of the European Single Market, and the UK's ability to influence and improve these rules increases the ability of British firms to compete. Competitive and respected EU rules can also open up new markets to UK firms without having to duplicate standards as other regions often design their own rules around EU benchmarks. Despite frustrations, over half of CBI member companies (52%) say that they have directly benefitted from the introduction of common standards, with only 15% suggesting this had had a negative impact.
>
> However, the impact of poorly thought-out and costly EU legislation is a major issue for businesses: 52% of businesses believe that, were the UK to leave the EU, the overall burden of regulation on their business would fall. Areas where UK firms are frustrated with EU regulation include labour market regulation, highlighted by nearly half of businesses as having had a negative impact – with particular frustrations around the Temporary Agency Workers Directive and Working Time Directive.
>
> The EU needs to make sure that all regulations (new and revised) will support Europe and the UK's growth – working in a global context and for businesses of all sizes – and be adequately assessed and well evaluated to ensure they deliver against their objectives.[27]

In October 2013 the Government's EU Business Taskforce published a report which contained 30 recommendations addressing barriers to overall competitiveness.[28] In November 2014, the Department for Business, Innovation and Skills published an update on progress. This reported that 10 of the 30 recommendations had been implemented, "saving UK businesses around £100 million a year, preventing additional costs of at least £100 million a year and banking one-off savings to firms of another £40 million."[29]

---

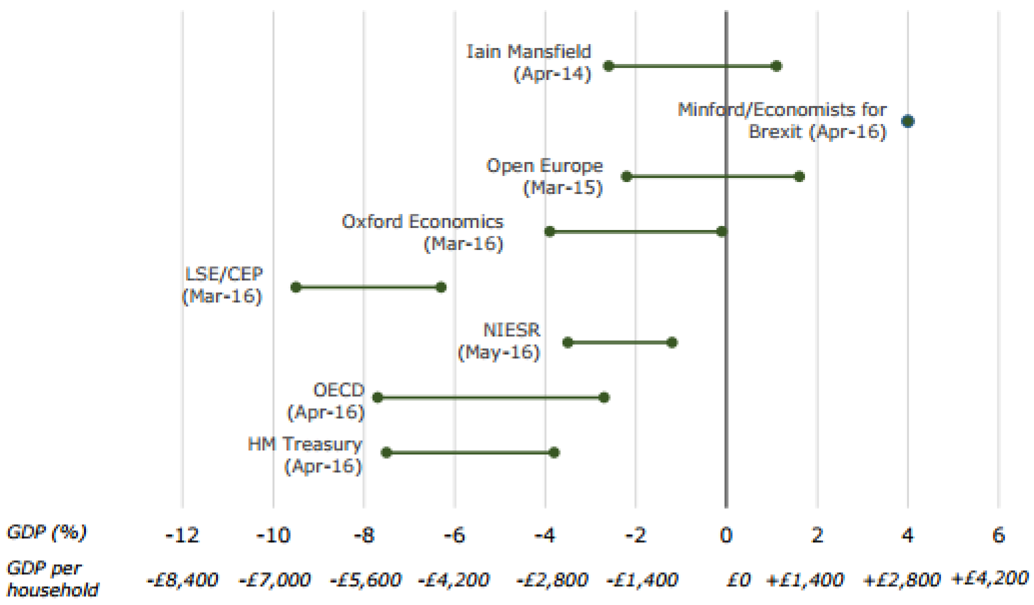
[25] Open Europe, Top 100 EU rules cost Britain £33.3.billion, 16 March 2015
[26] Treasury Committee, The economic and financial costs and benefits of the UK's EU membership, HC 122, 27 May 2016, para 61, p18
[27] CBI, Our Global Future – The Business Vision for a reformed EU, November 2013, p11
[28] Cut EU red tape –report from the Business Taskforce, October 2013
[29] BIS Press Release, Hancock hails boost to economy as UK cuts EU red tape, 6 November 2014

6. Cost-benefit analyses of EU membership

Estimating the aggregate impact of EU membership on the UK economy in terms of a single number, or even irrefutably demonstrating that the net effects are positive or negative, is a difficult exercise. This is because many of the costs and benefits are subjective or intangible. It is also because a host of assumptions must be made to reach an estimate. If the UK were to leave the EU, assumptions must be made about the terms on which this would be done and how government would fill the policy vacuum left in areas where the EU currently has powers. If the UK were to remain, assumptions would need to be made about how the EU would develop in the future. Estimates of the costs and benefits of EU membership are likely to be highly sensitive to such assumptions.

Despite the difficulties involved, a number of bodies have attempted an economic cost-benefit analysis of the UK's EU membership. They have reached a wide range of conclusions (see the chart below, taken from the recent Treasury Committee report on the economic and financial costs and benefits of the EU).[30] A selection of reports on the economic effect of Brexit is in Appendix 3 at the end of this note.

Figure 1: recent estimates of the long-term impact of leaving the EU on UK GDP



The Treasury Committee commented on these studies as follows:

> Most recent studies support remaining in the EU and find that Brexit decreases the UK's openness to trade with the EU, which, other things being equal, causes a decline in investment and productivity. The key question is how far these negative effects are offset by: the scope for increased openness to trade with the rest of the world; productivity gains from deregulation; and lower contributions to the EU budget. The balance of recent submissions seen by the Committee is that Brexit is likely to have a net negative impact in the long term because the costs of a fall in trade exceed the gains in other areas, although the size of that impact varies considerably between different studies. Those who favour leaving the EU would argue that these studies are

[30] Treasury Committee, [The economic and financial costs and benefits of the UK's EU membership](), HC 122, 27 May 2016, p19

> insufficiently optimistic or imaginative about how the UK would fare outside the EU. They could be right.[31]

The Institute for Fiscal Studies (IFS) has also compared a number of recent studies and summarised their findings in the table below.[32] Most of these studies find that Brexit would have a negative effect on GDP.

Table 3.1. Assessments of 2030 economic impact of Brexit

Organisation	Scenario	Estimate (% GDP)	Range	Impacts modelled
CEP (2016a)	Dynamic EEA/FTA	–7.9	(–6.3 to –9.5)	Budget, trade, productivity
	Static EEA	–1.3	N/A	Trade only
	Static WTO	–2.6	N/A	Trade only
HM Treasury	EEA	–3.8	(–3.4 to –4.3)	Budget, trade, FDI, productivity
	FTA	–6.2	(–4.6 to –7.8)	
	WTO	–7.5	(–5.4 to –9.5)	
OECD	WTO/ FTA	–5.1	(–2.7 to –7.7)	Budget, trade, FDI, productivity, migration, regulation
NIESR	EEA	–1.8	(–1.5 to –2.1)	Budget, trade, FDI
	FTA	–2.1	(–1.9 to –2.3)	
	WTO	–3.2	(–2.7 to –3.7)	
	WTO+	–7.8	N/A	Adds productivity
PwC/CBI	FTA	–1.2	N/A	Budget, trade, FDI, regulation
	WTO	–3.5		
Oxford Economics	FTA[a]	–2.0	(–0.1 to –3.9)	Budget, trade, FDI, migration, regulation
Open Europe	FTA	–0.8 to +0.6	(–2.2 to 1.6)	Budget, trade, migration, regulation
Economists for Brexit	WTO	+4.0	N/A	Budget, trade[b]

[a] FTA with moderate policy scenario used as central estimate; range includes 'liberal customs union' (–0.1) to 'populist MFN scenario' (–3.9).
[b] Regulation impacts assessed separately.
Note: Estimates are for impact on GDP in 2030.
Source: Estimates from organisations above. Authors' assessment of impacts modelled.

31 Treasury Committee, The economic and financial costs and benefits of the UK's EU membership, HC 122, 27 May 2016, para 72
32 IFS, Brexit and the UK's public finances, May 2016, p18

The IFS conclude:

> there is an overwhelming consensus among those who have made estimates of the consequences of Brexit for national income that it would reduce national income in both the short and long runs. The economic reasons for this – increased uncertainty, higher costs of trade and reduced FDI – are clear. The only significant exception to this consensus is 'Economists for Brexit'.[33]

The study published by the Treasury compared UK membership of the EU with three alternatives. It found that trade and investment would be lower under all three. GDP per household would be lower in all three cases, according to the Treasury's estimates. The estimated annual losses, expressed in terms of GDP per household, after 15 years were:

- Membership of the European Economic Area (EEA): £2,600
- A negotiated bilateral agreement: £4,300
- Trade under WTO rules (ie no agreement with the EU): £5,200.[34]

The Treasury paper argues that being in the EU brings considerable economic advantages by "increasing the openness of the UK economy and supporting trade and investment". These flow from access to the Single Market and the EU's ability to "negotiate access to global markets." The Treasury further argues that all the existing alternatives to EU membership would make it more difficult to trade with the EU and other countries and would reduce foreign investment. The alternatives would not give the same level of access to the Single Market which the UK currently has.[35]

Commenting on the Treasury's analysis, the Treasury Select Committee were critical of the emphasis put on a single estimate, such as the £4,300 figure, and argued it was important to consider the range around these estimates. The Committee also found that "its analysis appears not adequately to have considered various upsides to leaving the EU, but has modelled many of the downsides." The Committee concluded, however, that the Treasury's findings were consistent with independent expert analyses.[36]

Those in favour of leaving the EU have argued that the economic establishment has been wrong before. For example, Roger Bootle said the following in an article in the Daily Telegraph:

> Last week saw yet another warning about the dire economic costs of Brexit, this time from the IMF. This followed similar warnings from the Bank of England, HM Treasury, the OECD, the National Institute, and Uncle Tom Cobley and all.
>
> […]
>
> Such an overwhelming consensus of economists might seem impressive. After all, how could so many different voices come to the same conclusion, yet still be wrong? Easily.
>
> They aren't umpteen different voices. These people are the victims of group-think.
>
> Moreover, there is a long history of the global economic establishment getting the most important issues of the day profoundly wrong. It did not foresee the fall of communism, the collapse of inflation or the global financial crisis.

---

33 IFS, Brexit and the UK's public finances, May 2016, p5

34 HM Government, HM Treasury analysis: the long-term economic impact of EU membership and the alternatives, Cm 9250, April 2016, p8. The figures quoted are the mid-point of the range estimated for each option and are in 2015 prices.

35 HM Government, HM Treasury analysis: the long-term economic impact of EU membership and the alternatives, Cm 9250, April 2016, pp9-10. The figures quoted are the mid-point of the range estimated for each option and are in 2015 prices.

36 Treasury Committee, The economic and financial costs and benefits of the UK's EU membership, HC 122, 27 May 2016, para 72

> […]
>
> Even though I believe that we should leave, I concede that there are some good arguments for remaining in the EU. But the fact that various economic bodies with a less than distinguished record of foreseeing the future warn us against leaving is not one of them. [37]

Economists for Brexit have themselves published an estimate that GDP would increase by 4% if the UK left the EU. They emphasise the EU's external tariff, describing the EU as a protectionist customs union which "erects a sizeable wall of tariffs and other trade barriers around the 'single market' in agriculture and manufactured products." They conclude:

> What would be the effect of simply 'walking away' from the EU? Think of it as abolishing the 1972 European Communities Act, not negotiating any new agreements with the EU or anyone else, and putting up no UK trade barriers at all. Detailed model calculations (Minford et al, 2015) show we would receive a welfare gain of 4% of GDP, with consumer prices falling 8% and our competitive services sector expanding to take the place of diminished manufacturing output.[38]

The IFS said that this estimate was considerably more optimistic about Brexit than other studies:

> Again, of all the studies we are aware of that quantify a long-run effect on national income, Economists for Brexit are an outlier in suggesting a positive central estimate. This derives largely from their assumption that UK exports would be unaffected by leaving the EU and that, if we came out of the EU, we would embark on a policy of unilateral free trade – i.e. completely drop our tariffs on imports without necessarily receiving reciprocal agreements for our exports. They suggest such a policy could significantly reduce import prices, boost national income by 4%, and increase the size of our highly productive service sector, at the expense of our agricultural and manufacturing sectors. Other studies – for example, those by the Centre for Economic Performance (CEP) and Open Europe – also look at the impact of unilateral free trade but find much smaller effects.[39]

The Treasury Committee noted that a policy of unilateral abolition of tariffs would be politically difficult to achieve, despite the economic case for it.[40]

---

37 Roger Bootle, Yes, the IMF and 200-plus economists can be wrong, Telegraph website 15 May 2016. See also Professor Patrick Minford, The Treasury Report on Brexit: A Critique, Economists for Brexit.
38 Patrick Minford, Brexit and Trade: what are the options? In Economists for Brexit, The Economy after Brexit
39 IFS, Brexit and the UK's public finances, May 2016, p5
40 Treasury Committee, The economic and financial costs and benefits of the UK's EU membership, HC 122, 27 May 2016, para 169

Appendix 1: Time series of UK trade with EU

Trade with the EU
Goods and services

	Exports		Imports		Balance
	£ billion	% of total	£ billion	% of total	£ billion
1999	132.7	54.7%	144.6	56.0%	-11.9
2000	146.6	54.3%	156.2	53.8%	-9.6
2001	152.1	54.7%	168.8	55.5%	-16.8
2002	153.8	54.9%	182.0	58.2%	-28.2
2003	155.3	53.0%	188.0	58.1%	-32.7
2004	159.4	52.0%	195.2	57.2%	-35.9
2005	177.6	52.0%	214.8	56.9%	-37.3
2006	211.3	54.2%	241.1	56.6%	-29.7
2007	193.8	50.9%	228.7	54.4%	-34.9
2008	211.7	50.3%	245.1	52.4%	-33.4
2009	194.0	48.7%	223.3	51.5%	-29.3
2010	216.2	48.6%	247.1	50.7%	-31.0
2011	241.9	48.7%	264.3	50.5%	-22.4
2012	231.2	46.1%	272.4	50.9%	-41.2
2013	231.0	44.3%	286.5	51.6%	-55.5
2014	230.2	44.8%	289.1	52.8%	-58.8
2015	223.3	43.7%	291.1	53.1%	-67.8

Source: ONS series L84Y, L864, IKBH, IKBI, L86I

Trade with non-EU countries
Goods and services

	Exports		Imports		Balance
	£ billion	% of total	£ billion	% of total	£ billion
1999	109.8	45.3%	113.7	44.0%	-4.0
2000	123.3	45.7%	133.8	46.2%	-10.6
2001	126.0	45.3%	135.2	44.5%	-9.2
2002	126.2	45.1%	130.7	41.8%	-4.5
2003	137.9	47.0%	135.3	41.9%	2.5
2004	146.9	48.0%	146.3	42.8%	0.6
2005	163.8	48.0%	162.9	43.1%	0.9
2006	178.5	45.8%	184.9	43.4%	-6.4
2007	186.8	49.1%	191.7	45.6%	-4.9
2008	209.1	49.7%	222.2	47.6%	-13.1
2009	204.6	51.3%	210.0	48.5%	-5.4
2010	228.2	51.4%	240.3	49.3%	-12.1
2011	255.2	51.3%	259.0	49.5%	-3.8
2012	270.6	53.9%	263.2	49.1%	7.3
2013	290.1	55.7%	268.8	48.4%	21.3
2014	283.2	55.2%	258.8	47.2%	24.4
2015	288.2	56.3%	257.1	46.9%	31.1

Source: ONS series L84Z, L865, IKBH, IKBI, L86J

Appendix 2: Trade with individual EU member states

The table below shows UK trade with each of the other 27 EU member states in 2014. The UK had a trade deficit with 18 of these countries, a surplus with 5 and was broadly in balance with 4.[41]

UK trade with EU member states

Goods and services, £ billion, 2014

	Exports	Imports	Balance
Austria	2.4	4.1	-1.7
Belgium	15.1	23.1	-8.0
Bulgaria	0.8	0.7	0.1
Croatia	0.4	0.4	0.0
Cyprus	1.2	1.1	0.0
Czech Republic	2.7	5.2	-2.5
Denmark	6.0	6.0	0.0
Estonia	0.3	0.2	0.1
Finland	3.0	3.1	-0.1
France	30.9	36.8	-6.0
Germany	44.9	69.8	-24.9
Greece	2.3	2.9	-0.6
Hungary	1.8	3.1	-1.2
Ireland	26.9	17.1	9.8
Italy	16.4	21.3	-4.9
Latvia	0.4	0.5	-0.1
Lithuania	0.5	1.2	-0.8
Luxembourg	3.0	2.2	0.9
Malta	0.9	0.5	0.4
Netherlands	36.0	37.7	-1.7
Poland	5.5	9.5	-3.9
Portugal	2.5	4.3	-1.7
Romania	1.4	1.8	-0.5
Slovakia	0.6	2.2	-1.6
Slovenia	0.3	0.4	0.0
Spain	14.8	24.0	-9.2
Sweden	9.1	10.0	-0.8

Source: ONS

41 The figures are slightly different from those in Section 1 above. The figures in that section are for the EU as a whole and are from the ONS Balance of payments release published in March 2016. The figures for the individual member states are taken from data published by the ONS in response to an ad hoc data request (details here)

Appendix 3: Selected reports on economic impact of Brexit

Bank of England, "EU membership and the Bank of England", October 2015

Centre for European Reform, "The economic consequences of leaving the EU", June 2014

Economists for Brexit, The Economy after Brexit

Economists for Brexit, The Treasury Report on Brexit: A critique

HM Government, "Alternatives to membership: possible models for the United Kingdom outside the European Union", March 2016

HM Government: HM Treasury analysis: the long-term economic impact of EU membership and the alternatives, April 2016

HM Government: HM Treasury analysis: the immediate economic impact of leaving the EU, May 2016

IFS, Brexit and the UK's public finances, May 2016

Open Europe, Where next? A liberal free market guide to Brexit, April 2016

Open Europe, What if...? The Consequences, challenges & opportunities facing Britain outside EU, March 2015

OECD, The economic consequences of Brexit: A taxing decision, April 2016

PwC, "Leaving the EU: Implications for the UK economy", March 2016

Treasury Committee, The economic and financial costs and benefits of the UK's EU membership May 2016

About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publically available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email hcinfo@parliament.uk.

Disclaimer

BRIEFING PAPER
Number 06091, 13 June 2016