



BRIEFING PAPER

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In brief: UK-EU economic relations

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Summary

This note sets out some basic figures on the UK's economic relations with the EU.

It includes figures on UK trade with the EU and 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 Europe. 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 45% of exports and 53% of imports of goods and services in 2014. 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 42% of goods exports and 46% of goods imports.

Both the Conservative – Lib Dem Coalition government and the previous Labour government stated that over three million jobs are linked, directly or indirectly, to exports to the EU. This is not the number of jobs linked with membership of the EU as some trade with EU countries would still take place if the UK were to leave the EU.

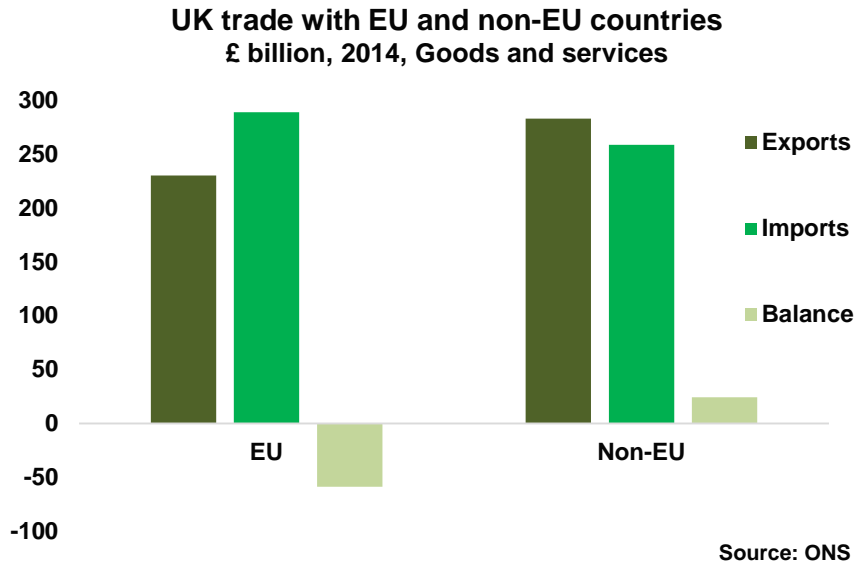
The EU is a major source of inward investment into the UK. In 2014, EU countries accounted for £496 billion of the stock of inward Foreign Direct Investment, 48% of the total. A 2015 survey by EY found that the UK attracted more FDI projects than any other European country in 2014.

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 £11.1 billion and £7.9 billion a year between 2016 and 2020.

Various studies have attempted to quantify the 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. For example, a 2005 study by the Institute for Economic Affairs found a cost of between 3% and 4% of GDP while a 2013 study by the CBI found a net benefit of between 4% and 5% of GDP. A 2015 study by Open Europe found that the cost of the 100 most burdensome EU regulations was £33.3 billion a year.

1. Trade

In 2014, the UK exported £230 billion of goods and services to other EU member states. This is equivalent to 44.8% of total UK exports. Goods and services imports from the EU were worth £289 billion (52.8% of the total) in 2014. The UK had a trade deficit of £59 billion with the EU in 2014 but a surplus of £24 billion with non-EU countries.¹



UK trade with EU and non-EU countries 2014
Goods and services

	Exports		Imports		Balance
	£ billion	%	£ billion	%	£ billion
EU	230	45%	289	53%	-59
Non-EU	283	55%	259	47%	+24
Total	513	100%	548	100%	-34

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

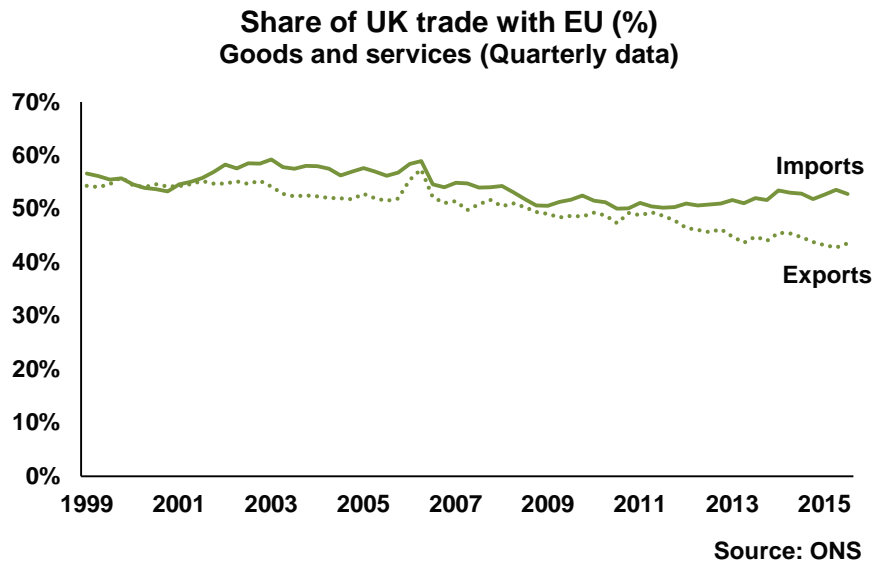
The two charts below show UK trade with EU and non-EU countries split between goods and services. The UK had a deficit with both EU and non-EU countries in goods and a surplus with both groups in services.

¹ ONS Statistical Bulletin, [Balance of Payments, Quarter 3 \(July to September\) 2015](#), 23 December 2015, Tables B and C

5 In brief: UK-EU economic relations



The EU as a bloc is by far the UK's largest trading partner. Exports to the US were £88.0 billion and exports to China £18.7 billion in 2014.² The share of UK exports accounted for by the EU fell from 55% in 2002 to 45% in 2014. The EU accounted for 58% of UK imports in 2002. This fell to 51% in 2011 but increased again to 53% in 2014.³



Further information can be found in an ONS article, [How important is the European Union to UK trade and investment?](#) 26 June 2015

² ONS, Pink Book 2015, Table 9.3. Data on UK trade with individual EU member states is in the Appendix at the end of this note.
³ These figures are for the EU28

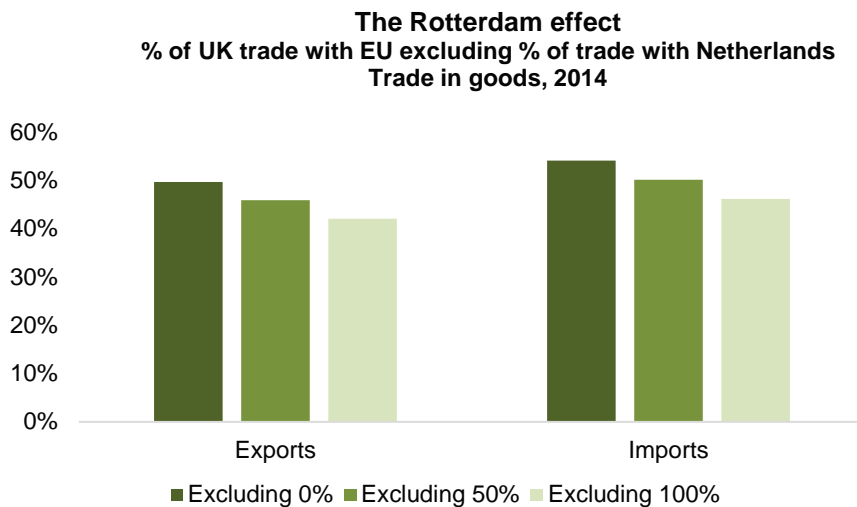
The Rotterdam effect

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 2014 data.



Sources: House of Commons Library based on ONS

This shows that if all goods trade with the Netherlands is counted as EU trade, then 49.7% of UK exports went to the EU and 54.1% of imports came from the EU in 2014. If, to take an extreme assumption, all trade with the Netherlands is excluded from the EU total, these figures fall to 42.1% for exports and 46.2% for imports. If 50% of trade with the Netherlands is excluded, the figures are 45.9% for exports and 50.1% 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](#), 8 January 2016, Tables and 2 and 11. In 2014, UK exports of goods to the Netherlands were worth £22.4 billion, 15% of total exports of goods to the EU, and more than the UK exported to France, Ireland, Italy or Spain

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

2. UK jobs associated with EU trade

Both the Conservative – Lib-Dem Coalition government and the previous Labour government stated that over three million jobs are linked, directly or indirectly, to the export of goods and services to the EU. For example, in a speech in June 2014, the then Chief Secretary to the Treasury, Danny Alexander, said:

Indeed, the latest Treasury analysis shows that 3.3 million British jobs are connected to Britain's place in Europe.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

An estimate of the number of jobs created or safeguarded by FDI projects from the EU is given in the table below.¹⁰

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 [Speech](#) to Centre for Transatlantic Relations, 26 June 2014

⁷ HC Deb 21 January 2008 c1565W

⁸ HL Deb 10 February 2014 c96WA

⁹ HM Treasury, [Fol response to Open Europe on jobs related to trade with the EU](#), 24 July 2014

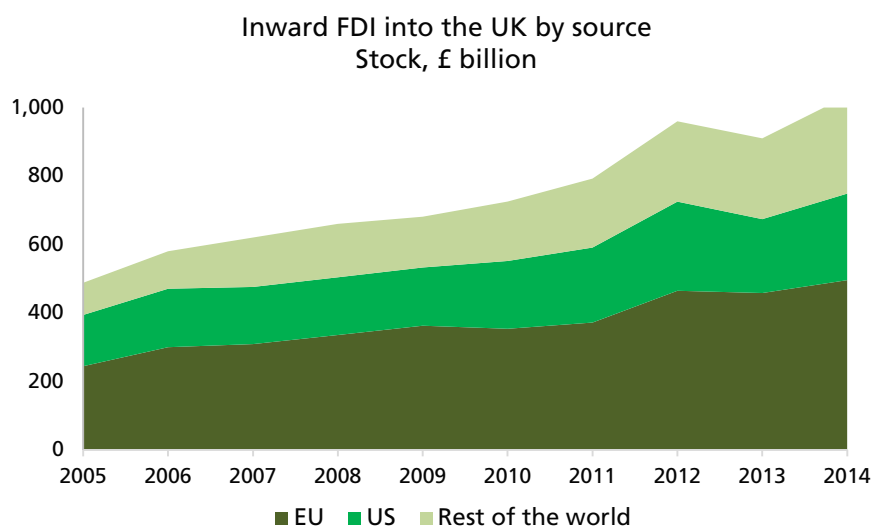
¹⁰ [PQ 17379](#) 1 December 2015

3. Investment

The UK is a major recipient of inward 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.¹¹

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%).¹² 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 2014.¹³

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.



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.¹⁴

¹¹ UK Trade and Investment, [Inward Investment Report 2014/15](#), p4

¹² ONS Statistical Bulletin, [Foreign Direct Investment Involving UK Companies 2014](#), 3 December 2015

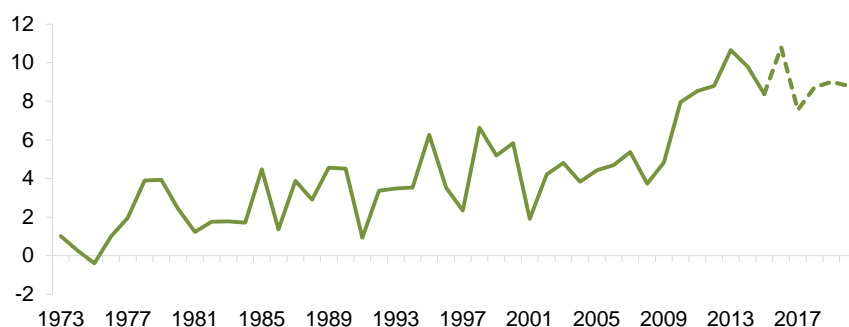
¹³ ONS Statistical Bulletin, [Foreign Direct Investment Involving UK Companies 2014](#), 3 December 2015

¹⁴ 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 receipts from the Budget are shown in the table below. More details on the EU Budget can be found in the Library Standard Note [EU Budget 2014-20](#)

UK annual net contributions 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 a rebate ('abatement') 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)	19.6	-4.3	15.3	-4.2	11.1
2017 (forecast)	17.8	-5.6	12.1	-4.3	7.9
2018 (forecast)	18.5	-4.8	13.7	-4.4	9.3
2019 (forecast)	19.7	-5.1	14.6	-4.9	9.8
2020 (forecast)	20.3	-5.5	14.8	-5.1	9.8

Sources:

HM Treasury, European Union Finances, latest edition published December 2015, Cm 9167

OBR. Economic and Fiscal Outlook - November, Supplementary Fiscal Tables, Table 2.25

OBR. Economic and Fiscal Outlook - November, Supplementary Economy Tables, Table 1.9

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.¹⁵

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.¹⁶

In October 2013 the Government's EU Business Taskforce published a report which contained 30 recommendations addressing barriers to overall competitiveness.¹⁷ 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."¹⁸

¹⁵ Open Europe, [Top 100 EU rules cost Britain £33.3 billion](#), 16 March 2015

¹⁶ CBI, [Our Global Future – The Business Vision for a reformed EU](#), November 2013, p11

¹⁷ [Cut EU red tape –report from the Business Taskforce](#), October 2013

¹⁸ BIS Press Release, [Hancock hails boost to economy as UK cuts EU red tape](#), 6 November 2014

6. Cost-benefit analyses of EU membership

There is no definitive study of the economic impact of the UK's EU membership or the costs and benefits of withdrawal. Framing the aggregate impact in terms of a single number, or even irrefutably demonstrating that the net effects are positive or negative, is a formidably 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 competence. If the UK were to remain in the EU, assumptions would need to be made about how policy in the EU would develop. Estimates of the costs and benefits of EU membership are likely to be highly sensitive to such assumptions.

Some examples of estimates of the cost or benefit to the UK of membership of the EU are set out below. Please note the estimates are not precisely comparable but the list gives an idea of the wide range available.

- Institute for Economic Affairs (Minford et al, 2005) [Should Britain leave the EU?](#) estimated range of '3.2-3.7 per cent of GDP in ongoing costs'
- Open Europe (2015) [The Consequences, challenges & opportunities facing Britain outside the EU](#) estimated the effect on UK GDP in 2030 of leaving the EU could potentially be in the range from -2.2% to +1.55% of GDP. However, the study argued that a more realistic range was between -0.8% and +0.6% of GDP.
- UK Independence Party (2010) [How much does the European Union cost Britain?](#) found that 'for 2010, the combined direct and indirect costs of EU membership will amount to... £77 billion net'
- Gianmarco Ottaviano et al (2014), [Brexit or Fixit? The Trade and Welfare Effects of leaving the European Union](#), Centre for Economic Performance, London School of Economics. Estimated the trade-related costs to the UK of leaving the EU as being in the range 2.2% of GDP to 9.5%.
- CBI (2013) [Our Global Future Literature review](#) . Based on a literature review, this found that the net benefit arising from EU membership is somewhere in the region of 4-5% of UK GDP.
- Department for Business Innovation and Skills, [written evidence](#) to Lords EU Select Committee inquiry into Re-launching the Single Market. Based on the argument that "EU countries trade twice as much with each other as they would do in the absence of the Single Market programme", increased trade with Europe since the early 1980s may be responsible for UK income per head being around 6% higher.

Groups campaigning on the EU referendum have also made claims. For example, [Leave.EU](#) claim that the average UK household could be £933 better off if the UK left the EU, through savings on the UK's contribution to the EU budget and being free from "numerous, costly subsidies and tariffs imposed on us by the EU." [Vote Leave](#) argue that exit from the EU would allow "the £350 million we send to Brussels every week" to be spent on different priorities. On the pro-EU side, [Britain Stronger in Europe](#) refer to figures

from the CBI which say “that all the trade, investment, jobs and lower prices that come from our economic partnership with Europe is worth £3000 per year to every household.”

Other studies comment more generally on the costs and benefits of EU membership. For example, a study by the Centre for European Reform, a think tank which describes itself as “pro-European but not uncritical”, published a report on the UK’s membership of the EU. This concluded:

The alternatives to EU membership are unsatisfactory: they either give Britain less control over regulation than it currently enjoys, or they offer more control but less market access. In a referendum, Britain will have to choose between national sovereignty and unimpeded access to EU markets. While membership of the EU is as much about broader, political questions as economics, the economic case for staying in the Union is strong.¹⁹

In a report for TheCityUK, a group representing the financial services industry, found that leaving the EU would increase costs for UK companies engaged in trade, “forcing them to reduce output and employment”.²⁰

Civitas found, however, that the trade benefits of EU membership were exaggerated. Based on a study of UK exports since 1960, Civitas found that UK trade with European nations outside of the EU had increased dramatically, while the UK’s trade with other EU members accounted for no more of its trade with leading economies than in 1973.²¹

¹⁹ Centre for European Reform, [The economic consequences of leaving the EU](#), June 2014

²⁰ TheCityUK, [Analysing the case for UK membership](#), A report by Analytically Driven, April 2014, p8

²¹ Civitas Press Release, [Trade advantages of the EU are “imaginary”](#), 5 May 2014

Appendix: 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 17 of these countries, a surplus with 6 and was broadly in balance with 4.²²

UK trade with other EU member states

Goods and services, £ billion, 2014

	Exports	Imports	Balance
Austria	2.4	4.2	-1.8
Belgium	15.6	24.1	-8.5
Bulgaria	0.8	0.7	0.2
Croatia	0.4	0.4	0.0
Cyprus	1.1	1.1	0.0
Czech Republic	2.7	5.2	-2.5
Denmark	6.0	5.8	0.2
Estonia	0.3	0.2	0.1
Finland	2.9	3.0	-0.1
France	30.6	37.0	-6.4
Germany	43.3	70.6	-27.3
Greece	2.2	2.9	-0.6
Hungary	1.8	3.0	-1.1
Ireland	27.9	17.1	10.8
Italy	16.3	21.6	-5.3
Latvia	0.5	0.8	-0.3
Lithuania	0.5	1.1	-0.6
Luxembourg	3.3	2.0	1.3
Malta	1.8	0.6	1.2
Netherlands	34.1	36.1	-1.9
Poland	5.5	9.4	-3.9
Portugal	2.7	4.2	-1.5
Romania	1.4	1.8	-0.4
Slovak Republic	0.7	2.2	-1.5
Slovenia	0.3	0.4	0.0
Spain	14.6	26.1	-11.5
Sweden	9.2	9.2	0.0
Total EU28	228.9	290.6	-61.7

Source: ONS Pink Book 2015, Table 9.3

²² 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 December 2015. The figures for the individual member states are from the ONS Pink Book, published in October 2015. The Pink Book is the only source for data on each member state.

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