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Tariffs Would Cost Europe Dear



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1. Summary

This paper analyses trade between the UK and the EU. The key findings are:

- Tariffs would hit the EU twice as hard as they hit the UK. If the UK leaves the EU in circumstances where tariffs are imposed, the impact of tariffs on the EU's exports to the UK would be some £13.2 Billion, while tariffs on the UK's exports to the EU would be around £6.5 Billion.
- Each year, the UK imports £240 Billion of goods from the EU and exports £144 Billion of goods to the EU. The EU has a surplus of £96 Billion in goods trade with the UK.
- The Republic of Ireland would be particularly hard hit by tariffs. It is estimated that tariffs would cause Ireland's economy to shrink by 3% over a decade, 40,000 jobs would be lost and the Irish national debt would increase by €20 Billion over five years. The impact on the Irish agri-food industry would be especially serious.
- It is clear that avoiding tariffs in trade between the UK and the EU is in the economic interest of both the UK and the EU. However the impact on the EU would from the imposition of tariffs would be greater – and the impact on the Republic of Ireland would be greatest of all.

2. Trade between the UK and the EU Over the Last Decade

Over the last decade the trade gap between the UK and the EU has widened as the graph below shows. Currently, the UK imports £240 Billion of goods from the EU, and exports £144 Billion of goods to the EU. This has resulted in a negative trade gap of £96 Billion (up from just £8 Billion a decade ago), as the table below shows:



UK trade in goods with the EU, 1999-2016¹

£ millions

	Exports	Imports	Balance
1999	101,942	110,110	-8,168
2000	113,108	118,548	-5,440
2001	115,127	128,310	-13,183
2002	115,662	138,825	-23,163
2003	112,381	140,712	-28,331
2004	112,923	146,257	-33,334
2005	123,069	161,921	-38,852
2006	151,826	185,105	-33,279
2007	128,507	172,514	-44,007

¹ House of Commons Library, ONS,

<https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/l87t/ukeya/previous>
<https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/l87r/ukeya/previous>

2008	142,811	184,751	-41,940
2009	125,501	166,062	-40,561
2010	145,173	189,072	-43,899
2011	165,085	204,555	-39,470
2012	150,685	209,039	-58,354
2013	151,256	220,664	-69,408
2014	145,472	224,734	-79,262
2015	133,957	222,912	-88,955
2016	144,175	239,804	-95,629

3. Top Products Traded between the UK and the EU

Set out below are the top 10 products that have been traded between the UK and the EU in both 2015 and 2016.

Top ten products imported by the UK from the EU in 2015²

The table below shows the top ten products imported by the UK from the EU in 2015, showing the value of the products imported, the average UK tariff applicable to the products traded if the UK adopted the same tariffs as the EU post-Brexit, and the cost of those tariffs.

Rank	Product category	Value (£million)	Average UK Tariff if UK adopts EU Tariff post Brexit (%) (correct as of 2015)	Estimated tariffs payable (£millions)
1	Vehicles other than railway or tramway rolling stock	43,101	9	3,896
2	Nuclear reactors, boilers; and mechanical appliances	25,915	1.4	366
3	Electrical machinery	19,749	2.4	477
4	Pharmaceutical products	16,773	0	n/a
5	Plastics and articles thereof	8,125	6.1	498
6	Mineral fuels, oils and products; bituminous substances; mineral waxes	7,684	1.7	127
7	Optical, photographic, cinematographic, measuring, medical instruments and apparatus	6,627	1.1	74
8	Beverages, spirits and vinegar	4,159	5.8	240
9	Organic chemicals	4,010	5.2	209
10	Paper and paperboard; articles of paper pulp, of paper, or of paperboard	3,997	0	n/a

² 'Potential post-Brexit tariff costs for EU-UK trade', Civitas, (October 2016), <http://www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf>

Top ten products exported by the UK to the EU in 2015³

The table below shows the top ten products exported from the UK to the EU in 2015, showing the value of the products exported, the average EU tariff applicable to the products traded, and the cost of those tariffs.

Rank	Product category	Value (£million)	Average EU Tariff (%) (correct as of 2015)	Estimated tariffs payable (£millions)
1	Mineral fuels, oils and products; bituminous substances; mineral waxes	15,659	1.1	167
2	Vehicles other than railway or tramway rolling stock	15,439	8.7	1,348
3	Nuclear reactors, boilers; and mechanical appliances	12,739	1.7	210
4	Electrical machinery	8,385	1.7	144
5	Pharmaceutical products	7,168	0	n/a
6	Plastics and articles thereof	4,656	6.1	286
7	Optical, photographic, cinematographic, measuring, medical instruments and apparatus	4,123	1.3	52
8	Aircraft, spacecraft; and parts thereof	3,852	1.6	63
9	Organic chemicals	3,516	3.8	134
10	Miscellaneous chemical products	2,625	4.3	113

Top ten products imported by the UK from the EU in 2016⁴

The table below shows the top ten products imported by the UK from the EU in 2016, showing the value of the products imported, the average UK tariff applicable to the products traded if the UK adopted the same tariffs as the EU post-Brexit, the cost of those tariffs, and the product's percentage of UK imports from the EU.

Product Category	Value (£million)	Average UK Tariff if UK adopts EU Tariff post Brexit (%)	Estimated tariffs payable (£millions)	% of total goods imports
Road vehicles (including air cushion vehicles)	45,705	9%	4,113	19.2%
Medicinal & pharmaceutical products	18,244	0%	n/a	7.7%
Electrical machinery, app & appliances & ele pt thereof n.e.s.	10,956	2.8%	307	4.6%

³ 'Potential post-Brexit tariff costs for EU-UK trade', Civitas, (October 2016),

<http://www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf>

⁴ Figures from HMRC, Trade Statistics Unit, <https://www.uktradeinfo.com/Pages/Home.aspx> and WTO, World Tariff Profiles, page 82 https://www.wto.org/english/res_e/booksp_e/tariff_profiles17_e.pdf#page=84

Miscellaneous manufactured articles n.e.s.	9,457	2.6%	246	4.0%
Telecoms & sound recording & reproducing app. & eqp.	9,197	2.8%	258	3.9%
General industrial machinery & eqp. & machine pt.n.e.s.	9,131	2.6%	237	3.8%
Power generating machinery & equipment	7,148	2.6%	186	3.0%
Office machines & adp machines	6,842	2.8%	192	2.9%
Vegetables & fruit	6,472	10.5%	680	2.7%
Petroleum, petroleum products & related materials	5,807	2.5%	145	2.4%

Top ten products exported from the UK to the EU in 2016⁵

The table below shows the top ten products exported from the UK to the EU in 2016, showing the value of the products exported, the average EU tariff applicable to the products traded, the cost of those tariffs, and the product's percentage of UK exports to the EU.

Product Category	Value (£million)	Average EU Tariff (%)	Estimated tariffs payable (£millions)	% of total goods exports
Road vehicles (including air cushion vehicles)	17,203	9%	1,548	12.0%
Medicinal & pharmaceutical products	11,936	0%	n/a	8.3%
Petroleum, petroleum products & related materials	11,087	2.5%	277	7.7%
Other transport equipment	7,768	4.3%	334	5.4%
Miscellaneous manufactured articles n.e.s.	7,728	2.6%	201	5.4%
Electrical machinery, app & appliances & ele pt thereof n.e.s.	5,825	2.8%	163	4.1%
General industrial machinery & eqp. & machine pt.n.e.s.	5,782	2.6%	150	4.0%
Articles of apparel & clothing accessories	4,762	11.5%	548	3.3%
Power generating machinery & equipment	4,408	2.6%	115	3.1%
Organic chemicals	3,846	4.5%	173	2.7%

⁵ HMRC, Trade Statistics Unit, <https://www.uktradeinfo.com/Pages/Home.aspx> and WTO, World Tariff Profiles, page 82 https://www.wto.org/english/res_e/booksp_e/tariff_profiles17_e.pdf#page=84

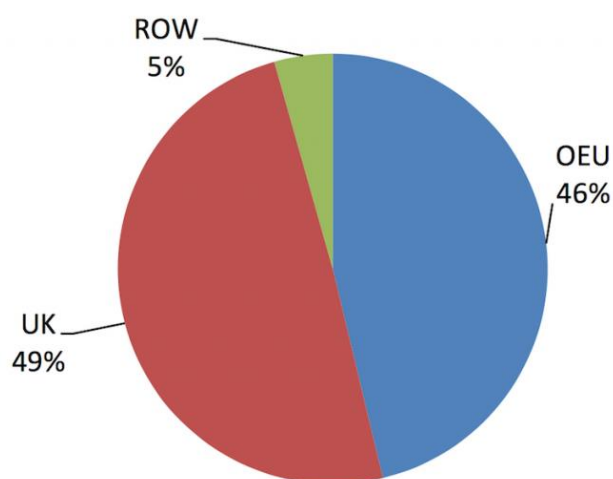
4. The Impact of Tariffs on the Republic of Ireland

The UK is the Republic of Ireland's biggest single trading partner, with the UK importing £17 Billion of goods and services from the Republic of Ireland, and exporting £26 Billion of goods and services to the Republic.⁶

The Irish Government estimates that tariffs on trade between the UK and EU would see trade fall by a third and that 40,000 people would lose their jobs in the Republic. It is also estimated that the Irish national debt would increase by €20 Billion within five years.⁷ The Irish Central Bank estimates Irish GDP would shrink by 3% over a decade.⁸

The agri-food sector, in particular beef and dairy, is hugely important to the economy of the Republic of Ireland. It would be particularly hard hit. Around two fifths of Irish agri-food exports are to the UK⁹. Estimates from Teagasc (Irish Agriculture and Food Development Authority) suggest that agri-food exports from the Republic to the UK could reduce in value by up to €800 Million (7.2%) a year.¹⁰

The pie chart below shows the Republic of Ireland's beef exports (which would attract a tariff of at least 30%¹¹) by destination¹²:



ROW – Rest of the World, UK – United Kingdom, OEU – Other EU Member States

⁶ <https://tradingeconomics.com/ireland/gdp> figures for 2 August 2017

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<http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/committeetakes/FPJ2017011900002>

⁸ <https://www.irishtimes.com/business/economy/brexit-could-cost-ireland-40-000-jobs-says-central-bank-1.3071259>

⁹ <http://www.agriland.ie/farming-news/brexit-analysis-how-the-irish-agri-food-sector-could-be-affected/#>
<http://www.bordbia.ie/industry/buyers/industryinfo/agri/pages/default.aspx>

¹⁰ <http://www.agriland.ie/farming-news/brexit-analysis-how-the-irish-agri-food-sector-could-be-affected/#>

¹¹ 'Potential post-Brexit tariff costs for EU-UK trade', Civitas, (October 2016),

<http://www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf>

¹² <http://www.agriland.ie/farming-news/brexit-analysis-how-the-irish-agri-food-sector-could-be-affected/#>
https://ahdb.org.uk/brexit/documents/BeefandLamb_bitesize.pdf

5. What Would the Overall Impact of Tariffs be?

A paper by the think tank Civitas published in 2016¹³ estimated that there would be an average tariff rate of 5.8% on EU exports to the UK (assuming the UK adopts EU tariffs post Brexit). However the UK Trade Policy Observatory (a collaborative project by Chatham House and the University of Sussex) has estimated that figure to be closer to 5.3%.¹⁴ Civitas also estimated that there would be an average tariff rate of 4.5% on Britain's exports to the EU.

Overall imports from the EU in 2016 were £240 Billion. Estimates of the impact of tariffs for EU exports to the UK vary between 5.3% and 5.8%, so a midpoint estimate of 5.5% will be assumed for the purposes of calculation. On this basis it is possible to estimate that the cost of tariffs on EU exports to the UK would be £13.2 Billion (£240 Billion multiplied 5.5%).

Overall UK exports to the EU are £144 Billion. On this basis, with average tariffs estimated at 4.5%, the impact of tariffs would be £6.48 Billion (£144 Billion multiplied by 4.5%).

Accordingly, the impact of tariffs on the EU's exports to the UK would be some £13.2 Billion while tariffs on the UK's exports to the EU would be some £6.48 Billion. Tariffs would hit the EU twice as hard as they hit the UK.

¹³ 'Potential post-Brexit tariff costs for EU-UK trade', Civitas, (October 2016), <http://www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf>

¹⁴ 'The World Trade Organisation: A Safety Net For a post-Brexit UK Trade Policy?' Briefing Paper 1 – (July 2016), UK Trade Policy Observatory <https://www.sussex.ac.uk/webteam/gateway/file.php?name=briefing-paper-1.pdf&site=18>