

## UK Trade Deficit: Ninety-Three per cent of UK current account deficit over the last five-years was with EU-26

*In 2008 the UK traded in deficit with seventeen of its twenty-six EU partners, though the overall deficit with EU-26 narrowed sharply, probably because of the banking crisis.*

*The UK Gross Contribution to EU Institutions continued its inexorable upward march, costing the British taxpayer **£45 million per day** in 2008.*

- The UK current account balance (“trade deficit”) with the whole world, having reached alarming levels in 2006 and 2007, contracted significantly in 2008.

*Table 1*

- The contraction resulted from a substantial reduction in the UK deficit with EU-26, & a substantial swing in the UK balance with the world outside the EU, from positive (a trade surplus) in 2007 to strongly negative (a deficit of £ 18.3 bn) in 2008.

*Table 2*

- Cumulatively, over the period 2004 – 2008, the UK deficit with EU-26 accounted for 93% of the deficit with the whole world. Cumulatively, on its trade with the world outside the EU, the UK has been almost in balance.

*Table 2*

- The changes in UK balances between 2007 and 2008 appear to be related to the world banking crisis which gathered pace in 2008. The Income category shows most of the biggest swings arising in countries which are significant financial centres and/or generators or recipients or transit centres for flows of Foreign Direct Investment. Relatively small improvements in UK balances occurred in UK – EU trade in goods, while there were improvements in trade in services with both EU-26 and the Rest of the World, possibly reflecting less overseas travel by UK residents.

*Table 3*

**Table 1: UK Current Account Deficit With World 2004 - 2008**

Year	'04	'05	'06	'07	'08
£ bn	24.9	32.8	43.8	37.7	25.1

Source: 2003 - 2007:ONS: *The Pink Book 2009*;

**Table 2: UK Current Account Balance with EU-26 and Rest Of World**

	2004	2005	2006	2007	2008	Cumul. 04 - 08
Balance UK/EU-26 £ bn	(30.4)	(40.6)	(35.5)	(40.1)	(6.8)	(153.4)
Balance UK/Rest of World £ bn	+5.5	+7.8	(8.3)	+2.4	(18.3)	(10.9)
<b>Balance UK/Whole World £ bn</b>	<b>(24.9)</b>	<b>(32.8)</b>	<b>(43.8)</b>	<b>(37.7)</b>	<b>(25.1)</b>	<b>(164.3)</b>
<i>UK-EU 26 Deficit as proportion of UK-World Deficit</i>						93%

**Table 3: UK Balances: Changes between 2007: £bn**

	Goods	Services	Income	Transfers	Total
With EU-26	+ 2.8	+ 2.9	+ 27.0 <sup>1</sup>	(0.4)	+ 32.3
With Rest of World	(5.9)	+ 6.7	(20.8) <sup>2</sup>	+ 0.3	(19.7)
<i>With World</i>	<i>(3.1)</i>	<i>9.7</i>	<i>+ 6.1</i>	<i>+ (0.1)</i>	<i>+ 12.6</i>

+ signs indicate improvement, ( ) indicate worsening in UK balances

1: of which Netherlands + 17.0, Germany + 6.1, Lux. + 2.4

2: of which USA (21.4), Switzerland + 11.1

- It seems unlikely that the devaluation of sterling against the US Dollar of 7.5% (average 2008 against average 2007) and of sterling against the Euro of 13.7% (average 2008 against average 2007) significantly influenced current account flows in 2008. The collapse in the £/\$ and the £/€ rates began in late summer 2008; usually, it takes several months for sharp changes in exchange rates to show through in flows of goods, services (except for travel) and income.
- On its trade with the whole world in 2008 the UK ran a massive deficit on Goods, partially compensated for by surpluses in Services and Income. **Table 4**

**Table 4: UK Balances: Current Account in 2008: £bn**

	Goods	Services	Income	Transfers	Total
<b>Exports:-</b>					
To EU-26	141	68	121	11	341
To Rest of World	110	102	143	5	360
<b>Exports to World</b>	<b>251</b>	<b>170</b>	<b>264</b>	<b>15</b>	<b>701</b>
<b>Imports:-</b>					
From EU-26	180	59	92	16	348
From Rest of World	164	57	145	13	378
<b>Imports from World</b>	<b>344</b>	<b>116</b>	<b>237</b>	<b>29</b>	<b>726</b>
<b>Balances:-</b>					
With EU-26	(39)	9	28	(5)	(7)
With Rest of World	(54)	45	(2)	(8)	(18)
<b>With World</b>	<b>(93)</b>	<b>54</b>	<b>27</b>	<b>(14)</b>	<b>(25)</b>

- In 2008, the UK ran a small surplus (+ £3.1 bn) on its trade with the USA, with which it has run large surpluses since 2003 (+ £ 19.3 bn in 2007 for example). Consequently, in 2008, the USA no longer figured amongst the countries with which the UK had the five largest surpluses. **Table 5**

**Table 5: Balances: Largest Surpluses and Deficits in 2008: £bn**

<b>Surpluses</b>	Switzerland	15
	Netherlands	14
	Ireland	9
	Luxembourg	8
	Australia	5
<b>Deficits</b>	China + Hong Kong	(20)
	Germany	(17)
	Norway	(17)
	EU Institutions	(7)
	Japan	(3)

- In 2008, the UK Gross Contribution to EU Institutions hit a new record of £ 16.4 bn: roughly half the entire UK Defence Budget: equivalent to £ 45 million per day. UK Gross and Net Contributions are set to rise sharply from 2009 onwards as a result of the abandonment by Mr Blair, then Prime Minister, on 17th December 2005, of part of the Fontainebleau Abatement. **Table 6**

**Table 6: UK Contributions to EU Institutions: £ bn**

	2004	2005	2006	2007	2008	Cum. 04-08
Gross Contribution	(13.2)	(15.1)	(15.4)	(15.9)	(16.4)	(76.0)
Receipts from "Brussels"	8.5	9.1	9.3	8.6	9.8	45.3
Net Contribution	(4.7)	(6.0)	(6.1)	(7.3)	(6.6)	(30.7)

## Notes & Data Sources

\* *The Pink Book 2009, 31st July 2009, www.statistics.gov.uk > Economy > Balance of Payments > The Pink Book 2009*

- Payments to & from supra- and international organisations, and remittances by expatriates, which are included in "Transfers", are not strictly-speaking "Trade", but a large proportion of them are trade-related. HM Government itself justifies UK net payments to the EU on the grounds that "the UK needs to be in the EU for trade".
- The data above is not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortions (see *Global Britain Briefing Note No 52, "UK plc's Export Growth is Coming from Outside the EU", 21st November 2008*) and pages 195 and 196 of the *Pink Book 2009*.

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