Brexit

Prospects for trade and Britain's maritime ports

Michael Taylor

About the Author

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Executive Summary

The 50 major sea ports of the UK represent a successful and competitive private sector industry. On the face of it the UK's departure from the EU poses a significant threat if fears of a sharp drop in trade after Brexit are realised. The UK is scheduled to leave both the single - or internal – market and the customs union. There will undoubtedly be implications for the UK's sea ports. Visions of queues of lorries outside Dover waiting for customs clearance and claims of a sharp drop in trade have featured in the post-Brexit referendum debate.

The purpose of this report is to assess the implications of the UK's departure from the EU on goods trade and the sea ports. In addition, we will examine the fundamental determinants of world trade generally and UK trade in particular.

This report will argue that the outlook for trade generally and for Britain's ports in particular is actually positive outside the EU. The volume of cargo passing through the UK's main sea ports will continue to trend upwards – regardless of whether a comprehensive free trade agreement is signed with the EU or not.

Effect of leaving the EU

We assume that the UK will leave the single market and customs union either in March 2019 when the UK is scheduled to leave the EU, or after a transition period. Although on a declining trend, the proportion of UK goods trade (exports plus imports) that is with the EU is still almost 50 per cent. Clearly, there is potential for a significant trade impact from Brexit.

A collapse in UK-EU trade is not likely – even if there is no free trade deal. Official estimates of the drop in trade using so-called gravity models overstate the impact of the effect of leaving the EU on trade. They fail to take into account UK-specific factors and include irrelevant data on emerging markets where the UK historically has done little or no trade. These studies also fail to take into account the likelihood of trade diversion – that lost trade with the EU may be quickly replaced by increased trade with non-EU countries. Such diversion seems likely, especially with Commonwealth countries such as Australia and New Zealand as well as the US, already the UK's biggest single trading partner. In terms of the immediate impact of the UK leaving the EU without a deal the scenario portrayed in leaked civil service documents of a shortage of food, fuel and medicine within two weeks is implausible.

Supply chain issues are not insurmountable. There will be some short-term trade dislocation and certain supply chains are vulnerable, especially if there is

no comprehensive trade deal. Cars and food processing are two of the largest manufacturing sectors in the UK and both may face difficulties following the UK's exit. In the case of the car industry tariffs on component imports from the EU could add to the cost of domestically produced cars, although it remains at the discretion of the UK government not to levy such tariffs. Food manufacturers may face high tariffs exporting into the EU and non-tariff barriers too, such as licence requirements, rules of origin documentation and prescriptive port health inspections at the border. Wherever possible the UK should mitigate these effects by minimizing or abolishing import tariffs and streamlining movement across UK customs borders through "trusted trader" schemes as well as seeking trade agreements to facilitate UK exports to the EU.

Customs checks and borders could increase. Management of the flow of trade with non-EU countries is already highly efficient and almost entirely free of customs delay. Barely 2% of goods coming into the UK from non-EU countries are stopped for customs checks. Those that are stopped tend to be as a result of intelligence-led investigations or on food safety grounds. Future UK-EU trade will require customs declarations which, based on the cost of non-EU trade, will be around 1% of total goods trade – estimates that put the costs at 4% of trade are excessive in our view.

In some sectors tariffs are already low. There are a few product areas including agriculture, motor vehicles and clothing and footwear where tariffs remain high. Together these currently account for approximately 15% of non-EU imports into the UK[1]. Away from these sectors EU tariffs are low, averaging around 4%. Hence UK exporters would not be unduly disadvantaged if they were to face EU external tariffs. Exchange rate movements are often much greater than 4% and if long lasting would be sufficient to more than offset the effect of most tariffs.

The outlook for global and UK trade flows

The global economy is the main determinant of international trade and continued expansion in both is likely. However over the last few years the growth in world trade has been either in line with – or even less than – growth in the global economy. This is in sharp contrast to most of the last thirty years when trade often expanded very rapidly. This may be seen as a golden age of trade growth and the more recent pattern may persist for some time.

The biggest risk to global trade is increased protectionism. There have been some signs of this in recent months, especially from the Trump administration in the US. But there have also been free trade agreements, such as the one

[1] UK overseas trade in goods statistics December 2017: import and export data, 8th February 2018

between Japan and the EU. For now there is a widespread if not universal understanding of the benefits of free trade. As the UK leaves the EU and its customs union it will be able to adopt its own independent trade policy. This is **an opportunity for the UK to make the moral and economic case for free trade by unilaterally eliminating all import tariffs[2].**

The fundamental outlook for UK trade

Away from Brexit issues there are underlying fundamental forces determining the flow of goods into and out of the UK. Growth in UK exports will continue to be determined by the supply side potential and competitiveness of the domestic economy and by global demand conditions. Future demand for UK exports may be uncertain but it is clear that extra demand will come increasingly from outside the EU. UK imports are primarily a function of UK domestic demand, which should continue to expand at an annual rate of 1.5% to 2% in real terms. The trend of a declining EU share of total UK trade in goods will continue and is highly likely to be given an extra push by the UK leaving the EU.

The Government's new Industrial Strategy can potentially boost UK trade through export promotion and by increasing the rather small percentage of companies that do currently export. (The current Trade Bill will at last create the means by which the Government can find out exactly which companies are engaged in exporting goods and services.) More generally an industrial strategy that boosts productivity and innovation would provide a more favourable environment for exports.

Trade in goods will continue to grow as the world economy expands and there is further specialisation and integration of developing economies into the global trading system. **Britain's competitive and dynamic sea ports are well placed to reap the rewards of growing trade flows in and out of the UK.**

- In order to boost trade flows the Government should actively promote the benefits of free trade and pursue consistent policies, including negotiating free trade agreements (FTAs). The Government should also consider unilaterally lowering or completely removing import tariffs generally but especially on manufacturing components, such as those for cars. Such unilateral action would benefit consumers generally but would impose costs on certain sectors of the economy

[2] "Global Champion: The Case for Unilateral Free Trade" Policy Exchange February 2018

and associated employees. Policy Exchange advocates a transition period and a gradual removal of tariffs[3].

- In order to stimulate growth regional development, Free Ports could be considered in certain locations but they certainly will not provide a post Brexit solution to customs and frontier checks at gateway ports such as Ro-Ro terminals. Free trade areas are currently permitted under UK and EU law but in recent years UK examples, such as the Port of Liverpool, failed to demonstrate sufficient benefits and in 2012 their status was removed. Free Ports themselves would not be necessary if the UK were to adopt a policy of unilateral free trade after Brexit. But such Free Ports could be of use during a transition period as the UK gradually phased out its tariff regime. However, we do not support the granting of generous tax breaks and subsidies as a way of encouraging manufacturers to establish facilities within Free Ports. Development areas could be created around UK ports with fast track planning and consenting procedures to encourage regional economic expansion around port clusters[5].

- In order to smooth the flow of goods across borders, customs clearance should be speeded up wherever possible by adopting "trusted trader" schemes, advance clearance and declaration waiver agreements. The Government should encourage the adoption of technological innovations wherever possible to minimize delays and the costs of transporting goods across UK borders.

A Free Port is an area inside a geographically defined country, but legally outside the customs territory of that country. Goods can be imported, manufactured or re-exported inside a Free Port without incurring domestic customs duties or taxes. These are only paid (often at reduced rates) on goods entering the domestic economy. Some Free Ports also offer state support through financial incentives such as R&D tax credits, tax reductions and a favourable regulatory environment. Free Ports also would have some appeal to investors and the concept can involve moving the port's customs limits inland to include other businesses and processing sites. However as this would be costly and as existing mechanisms such as Temporary Storage and Bonded Warehousing, are already available from the HMRC, it is likely that only a relatively small number of UK ports would find Free Port status attractive[4].

[3] ibid
[4] 'A Brexit Dividend: Supporting Trade and Growth'. The British Ports Association, March 2018
[5] British Ports Association calls for 'port zoning' policy, 26 January 2018

- **Of particular importance, especially for trade conducted with lorries on ro-ro ferries, is the successful introduction of the new customs service, the Customs Declaration Service (CDS**) which is to replace the paper intensive CHIEF system. CDS is being phased-in by January 2019, while the CHIEF system runs alongside as a back up. But there are clearly risks in introducing new technology as the UK leaves the EU, although these are mitigated since the CDS should be established before changes to customs arrangements are introduced after December 2020. But the government through HMRC should ensure that sufficient resources are made available in a timely fashion for this changeover to occur as smoothly as possible.

- In order to avoid burdensome health inspection regulations that could hamper trade in animal and plant products, the Government should seek to negotiate a reciprocal agreement with the EU. This would involve mutual recognition of the equivalent effectiveness of health and safety standards in the UK and EU.

- In order to avoid costly regulation on UK sea ports, the EU Port Services Regulation should ideally be removed from the EU Withdrawal Bill. At the very least the Regulation should be repealed at the earliest opportunity after the UK has left the EU. This Regulation is an attempt to encourage competition within the large sea ports of continental Europe where competition is limited. By contrast UK ports do compete with each other and there is no necessity for them to outsource their services.

- Finally, decisions on infrastructure spending should consider the degree to which it can facilitate trade through integrating with the UK's major sea ports.

The EU Port Services Regulation (PSR) was passed into EU law in March 2017 with a two year deadline for member states to implement its measures in domestic legislation. In the UK the PSR is due to come into effect on 24th March 2019, five days before the UK is due to leave the EU. The main aim of the PSR is to promote competition in the provision of certain services within the larger sea ports of continental Europe, such as Rotterdam, Antwerp and Hamburg. Competition is to be encouraged by making it easier for these port services, such as mooring and piloting to be provided by outside companies. The PSR also requires financial transparency, both of port charges (subject to confidential discounts) and of the extent of any public funding of ports.

Introduction

The British ports industry has been in the private sector since 1983 when the state owned ports were privatized by the Thatcher Government, initially creating Associated British Ports (ABP) in the process. The entire ports industry was given a major boost in 1989 with the abolition of the National Dock Labour Scheme, which had guaranteed jobs and given trade unions a veto over terms and conditions of dock workers' employment. The effect of the scheme, introduced in 1947, was to push up costs and limit profitability. Abolition allowed ports to reduce payroll, boost investment in an increasingly capital intensive industry and improve both productivity and profitability.

Over the last 25 years the value of goods traded into and out of the UK's ports has steadily increased. In 2017 the sum of UK exports and imports of goods totalled £822bn[6]. Not all of this will have passed through sea ports; there is of course the Channel Tunnel, Heathrow airport and the border between Northern Ireland and Ireland. But around 70%[7] of goods transported into and out of the UK go through a sea port. There are approximately 50 of these and they have competed and become increasingly efficient over the years. Greater economies of scale have resulted in increased concentration in the industry. The latest data (2014) reveals that around 75% of dry cargo by value is handled by just seven ports, the largest being Southampton, Felixstowe and Dover. (See table below.)

Figure 1: UK's largest ports by value (2014)

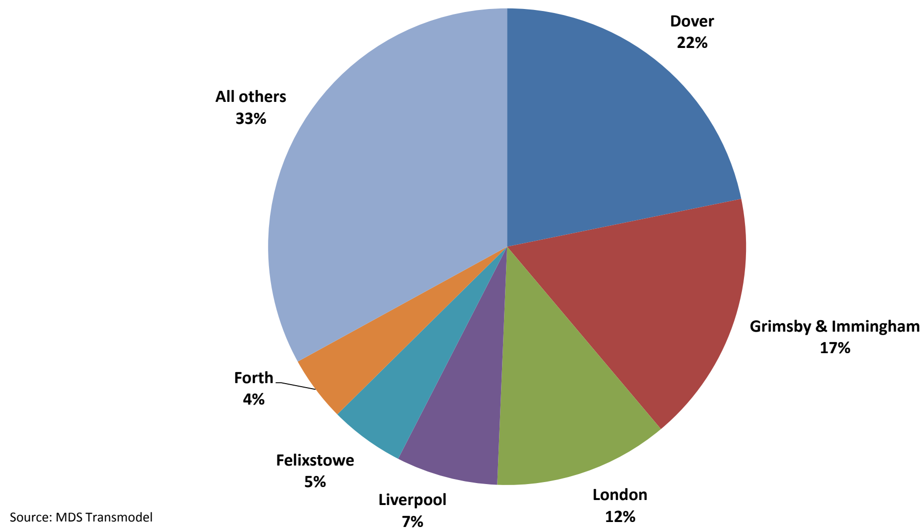
Rank	Major Port	Value £bn	% of total
1	**Felixstowe**	**74.5**	**14.6**
2	**Southampton**	**71.4**	**14.0**
3	**Dover**	**69.5**	**13.6**
4	**Grimsby and Immingham**	**61.9**	**12.2**
5	**London**	**53.5**	**10.5**
6	**Liverpool**	**36.5**	**7.1**
7	**Tees and Hartlepool**	**17.0**	**3.3**
	Others	**126.2**	**24.7**
	Grand Total	**510.8**	**100**

Source: MDS Transmodel

At present roughly half of the trade passing through the sea ports of the UK is customs free trade with the other 27 members of the EU. Dover is the dominant port for EU trade, accounting for 22% of the total (exports plus imports).

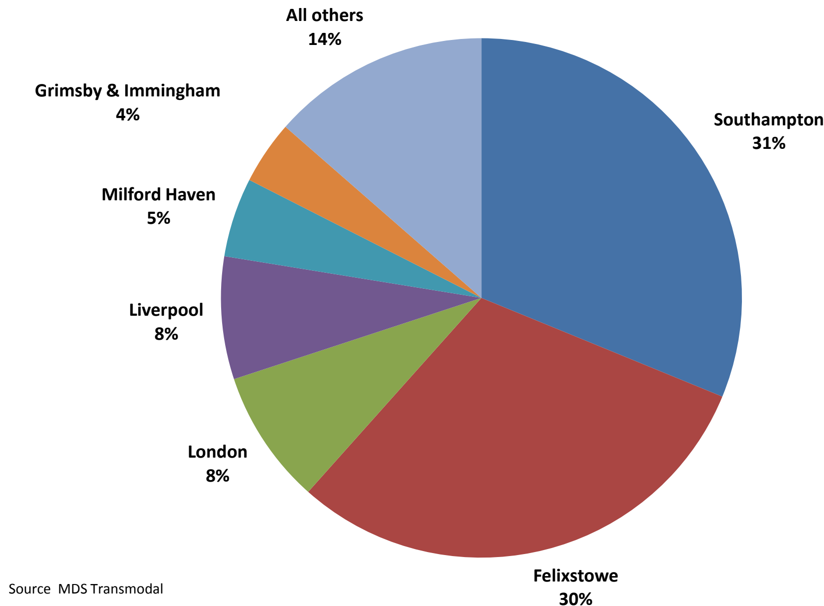
[6] Office for National Statistics (ONS) Trade Statistics December 2017
[7] Based on data for 2014 in MDS Transmodel 2016

Figure 2: Market share of ports – EU trade



The picture for non-EU trade is rather different. Felixstowe and Southampton are the clear market leaders, reflecting their capacity to accommodate large container ships. In Southampton's case, its role as the leading importer and exporter of vehicles further enhances its position[8].

Figure 3: Market share of ports – non-EU trade



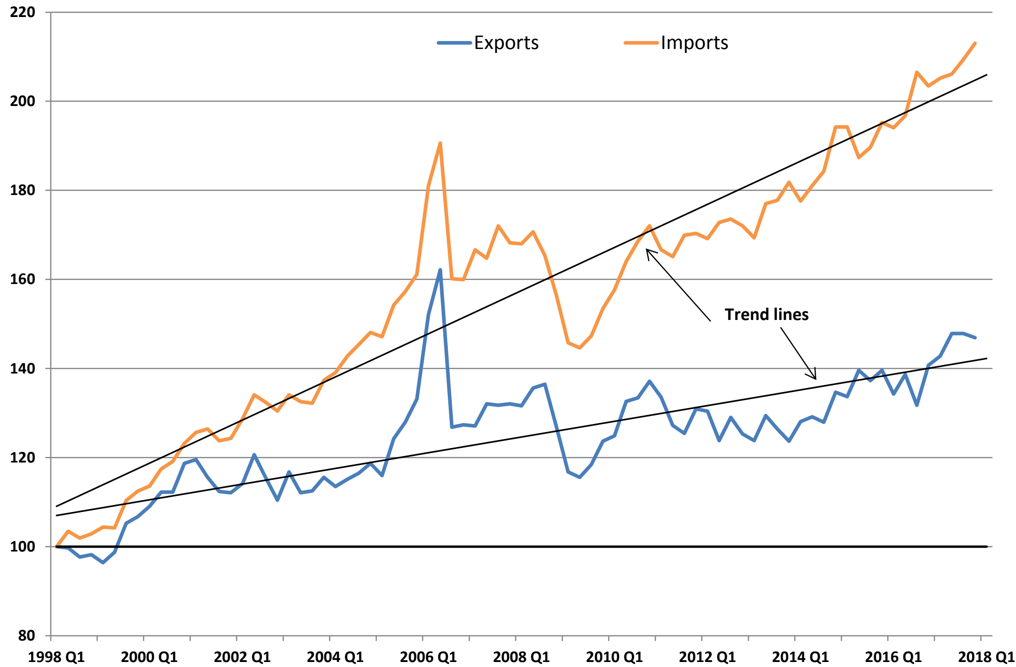
[8] MDS Transmodal 2016 p20

On 23rd June 2016 the UK voted in a referendum to leave the European Union. On 29th March 2017 the UK Government triggered Article 50 of the Lisbon Treaty, beginning the formal process of leaving the EU. Under the timetable established in the Treaty the UK is set to leave the EU on 29th March 2019. The most likely outcome remains that the UK will leave the single market and the customs union. It now looks almost certain that there will be a transition or implementation period lasting 21 months until the end of December 2020. During this period the UK will effectively remain within the single market and customs union. There is clearly great uncertainty about the ultimate nature of the UK's trading relationship with the EU once the process of leaving is fully complete. An economist might argue that, given the large trade flows between the UK and EU it will be in the interest of both parties to come to a mutually beneficial free trade agreement (FTA) that allows customs free trade to continue. But equally a political analyst may argue that there is still a chance that a breakdown in Brexit negotiations will result in a no deal situation and a reversion to World Trade Organisation trading rules and tariffs. This report will assess the implications of the UK's departure from the EU on trade and the activities of the sea ports. This will be done against the backdrop of the fundamental determinants of the volume of UK goods trade, the ultimate determinant of activity levels of the UK sea ports.

Trends in goods trade

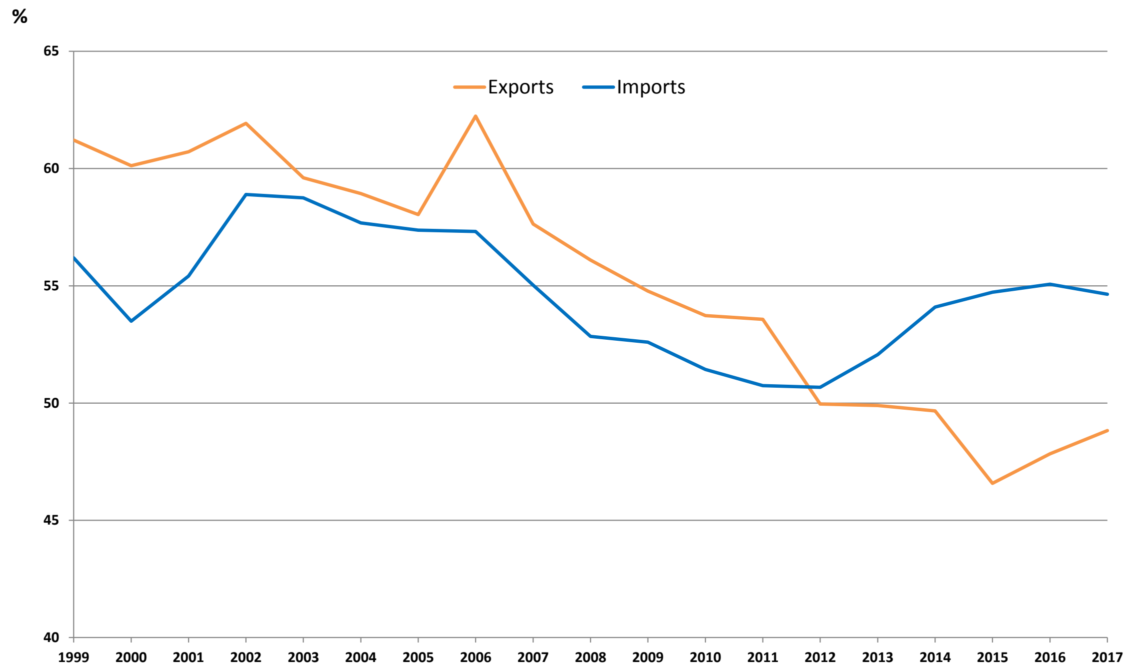
The total volume of exports is on an upward trend, along with world trade as a whole. The chart below illustrates the upward trend in the absolute volume of goods trade over the last 20 years – even if the proportion of UK goods trade in the total has declined as services have increased in importance. There have been dips, notably in 1998 after the Russian debt crisis and during the global financial crisis and recession of 2008/09. But these were deviations around a permanent upward trend and expansion was re-established in fairly short order. Unless there is a serious reversal of globalisation this upward trend is likely to persist for the foreseeable future. Greater specialization and exploitation of comparative advantage suggests that world trade will continue to grow, although the pace of such growth is uncertain.

Figure 4: UK export and import volumes of goods



The share of exports going to other EU members has been on a declining trend for at least the last 15 years. For many years UK exports have been growing much faster to non-EU countries than to the EU, notwithstanding the UK's membership of the single market and customs union. For example, in the 10 years to 2015 UK goods exports to the EU increased by a total of 8.5%, while those to non-EU countries went up by almost 70% - eight times faster. Consequently, over this period the share of goods exports going to the EU has fallen from just over 60% to 49%.

Figure 5: UK goods trade – proportion with EU



Source *ONS Trade Statistics*

The main reason for the fall in the EU's share of UK trade is that EU GDP growth has been much weaker than elsewhere over this period, especially compared to China, India and the US. Taking UK goods exports and imports combined as the relevant measure, trade with China has grown at an annual average rate of 15.6% over the last 15 years, by 8.6% a year with India and 3.8% a year with the US. The overall trade growth with non-EU countries is 5.5% a year over this period, compared with 3.9% for the EU. It is inevitable that this trend will continue in coming years as the UK's non-EU trading partners grow faster than the EU. Moreover, this would be true even if the UK were to remain in the EU. Rapidly growing emerging economies will tend to grow faster than developed economies, especially compared with the euro-zone, which account for the vast majority of (non-UK) EU GDP. The European Commission, in a 2016 response to a written question in the European parliament, acknowledged that by 2020 90% of global growth will come from outside the EU. [9].

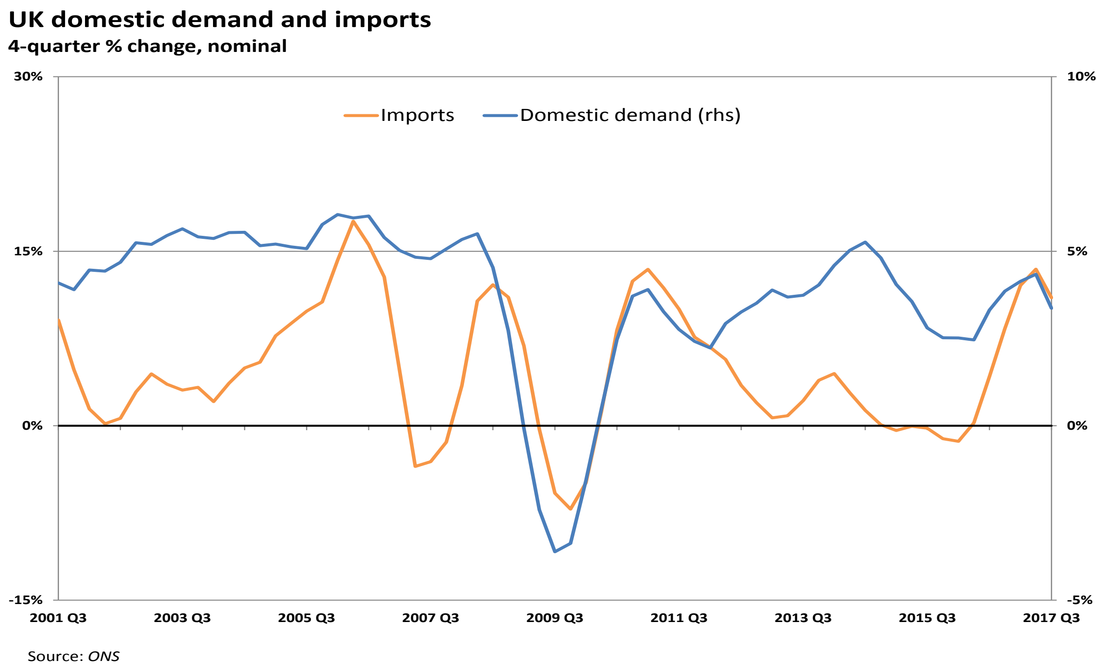
There is also evidence that even if EU and non-EU GDP increased by the same percentage, UK exports would still rise faster to the latter. (In technical terms, the income elasticity of exports is greater to non-EU than EU countries.) Oxford Economics[10] estimate that a given per cent increase in non-EU GDP generates

[9] European Parliament Questions 18 March 2016. Answer by Mr Moscovici on behalf of the Commission
[10] "Will Brexit speed a seismic shift in UK trade patterns?", Research Briefing Oxford Economics September 2016

twice as much UK exports as the same percentage increase in EU GDP. Based on estimates of long-term GDP growth (1.3% per annum in the EU (ex UK) and 2.8% per annum in the Rest of the World, the Oxford Economics study points to a fall in the share of the EU in UK goods exports from 49% in 2017 – to 42% in 2025 and to 37% by 2035.

The share of goods imports from the EU remains above 50%, even allowing for a material Rotterdam effect[11]. After the UK has left the single market and customs union there may be a material shift in the country composition of imports. The UK will be free to set its own tariff regime for imports. Certain goods – agri foods, vehicles and some clothing for example are subject to significant tariffs if imported from outside the EU. If the UK were to adopt unilateral free trade post-Brexit i.e. abolish all import tariffs, then a shift in some imports away from the EU would be likely.

Figure 6: Domestic demand and imports



But the dominant influence on total imports will be domestic demand in the UK. In the long term this would be expected to grow in relation to trend rate GDP growth, estimated by Policy Exchange to be between 1.5% and 2% a year.

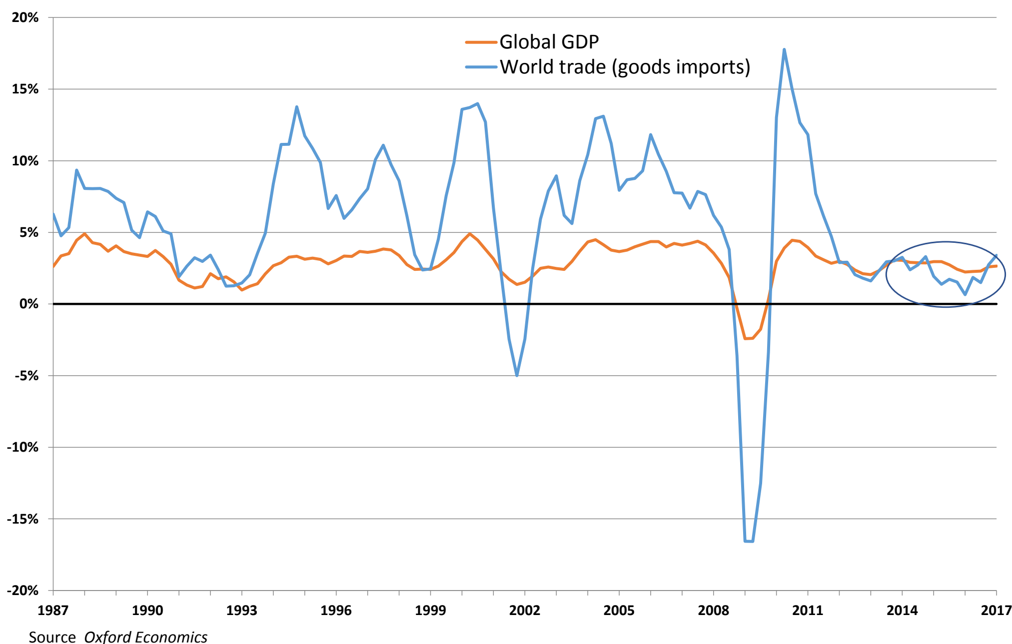
Since goods imports exceed exports by a considerable margin, ports activity will be determined by the level of imports. Goods trade is dominated by unit-load

[11] The Rotterdam effect refers to the significant quantities of non-EU trade passing through the EU port of Rotterdam on the way to/from other EU countries and which is therefore recorded as EU trade rather than correctly as non-EU trade. See Appendix p. 30.

shipping so a significant proportion of containers and HGV trailers return from the UK empty, having delivered imports. A boost in exports from current levels could be accommodated by using these containers, meaning no increase in total shipping through UK ports. (Certain port services would of course see an increase in activity.)

There is also a global dimension determined by the growth in overall world trade. For much of the post-war period world trade has tended to grow faster than global GDP, often by a considerable margin. Only in global recessions did trade fall by more than global economic activity. However, since 2012 trade has expanded at the same rate as global GDP and often at a slower rate. (See circled area in chart below.)

Figure 7: World trade and global GDP



Hence a key issue for ports worldwide is whether the recent relationship between trade and the global economy is temporary or permanent. Most plausible explanations[12] suggest a structural and therefore permanent shift. First, the pace of trade liberalisation peaked in the 1990s and early 2000s, triggering a surge in global trade that has now played out. The Uruguay round of trade negotiations, the signing of NAFTA and the admission of China to the WTO all contributed to booming global trade during the 2000s. These exceptionally

[12] "Causes of the Global Trade Slowdown" Logan Lewis and Ryan Monarch Board of Governors of the Federal Reserve System November 2016

favourable conditions will not be repeated and the gains from trade liberalisation of goods have been substantially achieved. Indeed China has now become a source of slowing global trade as its economic growth both moderates and moves away from the export-led model towards consumption and services. Finally the process of supply chain fragmentation - another stimulant for global trade – has also now virtually come to a halt. All three of these factors point to more moderate trade growth relative to global economic activity in the future.

So there is a good chance that the heady days of booming trade growth are over even when global growth is relatively strong, as looks likely to be the case through 2018. In addition, there is the risk that the high tide of globalisation has been reached and that increased protectionism may restrict trade and global growth in coming years. The UK can play its own part in maintaining the trend towards international free trade, since on leaving the EU customs union it will be free to set its own import tariff regime, including unilateral free trade. It is these trends that will be a key determinant of trade in UK goods and the activity levels of UK ports. The effect of the UK's departure from the EU is in many respects a second order consideration compared with these bigger underlying forces.

The UK runs a significant deficit in trade in goods with the EU, at £94.7bn in 2017. A widening of this deficit, from less than £40bn in 2011, has been the main driver of the increased deficit in the UK's balance of trade in goods in recent years (£135.6bn in 2017). This imbalance in trade has led some to argue that the EU will be keen to do a trade deal with the UK in order to maintain access to lucrative UK markets. This may well be true and there are clear mutual gains from an agreement that substantially retains the current system of free trade. But it is worth noting that when expressed as a proportion of GDP the picture is rather different: UK goods exports to the EU are 8.3% of GDP while for the EU 27 goods exports to the UK are just over 2% of their GDP[13].

[13] ONS GDP Release and Eurostat Database

The effect of leaving the EU

In the lead up to the EU referendum various estimates were made of the effect on UK trade of a departure from the EU. These were based on so-called gravity models which predict that trade between two economies is negatively correlated with the distance between them and positively correlated with their size (mass). These models can also include cultural factors such as language and colonial ties. Estimates of the effect of the EU on trade are then deduced by subtracting estimated trade given by the model from the level of actual trade observed. The result is assumed to be the effect on trade of leaving the EU. These estimates project a fall in trade with the EU of 43% and a drop in total (EU plus non-EU) trade of 24%. Second round effects from lower inward investment and productivity result in a total reduction in the level of GDP of 3% by 2030. These estimates – made by HM Treasury, OECD and IMF have been criticized on various grounds in a Policy Exchange paper[14]. Perhaps the main point is that the estimates fail to include UK-specific factors such as the Thatcher reforms of the 1980s where domestically-driven productivity gains are likely to have contributed to increased trade but instead have been attributed to EU membership. The gravity models used also included data for many emerging market economies where the UK did little or no trade at all.

Using a revised gravity model and calculating UK specific effects, the authors estimate that leaving the EU without a deal would reduce UK goods exports to the EU by 20%, compared with the Treasury's preferred estimate of 53%. When all trade is included (services and non-EU trade) the drop in exports falls to 8% compared with 24% in the Treasury estimate. This reduces the impact on GDP over the years to 2030 to a small, negative effect. Depending on the scale of immigration over the period, GDP per head may actually increase slightly. The analysis is based on the assumption of a no deal situation with reversion to WTO trading rules. Estimates of the loss of trade under a Free Trade Agreement between the UK and EU are not dramatically different than this.

An additional limiting factor on the decline in trade post Brexit may be trade diversion. Estimates of the loss of trade with the EU assume that this is a net loss with no compensating boost to trade with non-EU countries. But this seems unlikely as the UK strengthens trading links with Commonwealth countries such as Australia and New Zealand. Reliable estimates of such an effect are impossible, especially as the nature of any UK-EU trade deal is still unknown.

[14] "Defying Gravity: A critique of estimates of the economic impact of Brexit" Dr Graham Gudgin and Ken Coutts, University of Cambridge, Policy Exchange Report, June 2017

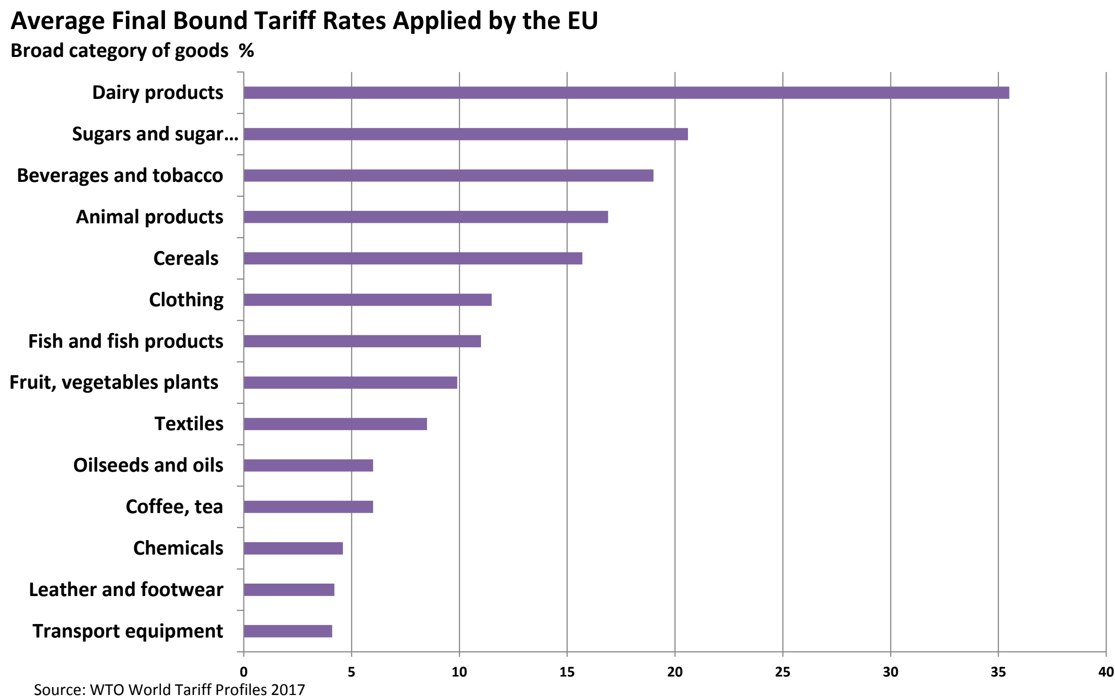
Implications of a reversion to WTO trade rules

Once the UK leaves the single market and customs union, its trade arrangements will fall under World Trade Organisation (WTO) rules. The Government has made it clear that "WTO membership will form the bedrock on which we build our future trade relationships"[15]. The UK remains a member of the WTO independent of EU membership – there will be no need to re-apply. But the UK will have to establish both its own schedules at the WTO and its own customs arrangements. In order to affect these changes, there will be a separate customs bill presented to parliament as part of the Brexit process.

Since the UK and EU will both be WTO members there is a limit to the tariffs and other trade barriers that each can impose on the other. For example, any EU desire to impose punitive tariffs on UK exports would be constrained by the fact that should they do so they would have to apply the same tariffs to all its trading partners – the so-called most favoured nation(MFN) principle. On average UK goods exporters would face an increase in tariffs on selling into the EU of around 4% - from zero at present. However, there is a large dispersion around this average, as illustrated in the chart below. Around 15% of exports to the EU would face tariffs of over 10% with agricultural products subject to the highest tariffs. Elsewhere the increase is neither punitive nor in itself a great hindrance to trade. Exchange rate fluctuations are frequently greater than this, for example sterling fell 8% against the euro immediately after the EU referendum in June 2016 but also appreciated sharply in 1996, rising almost 10% on a trade-weighted basis in the second half of the year[16].

[15] "The UK's departure from and new partnership with the European Union" DExEU, February 2017 p56
[16] Bank of England Interest and Exchange Rates Data

Figure 8: EU Tariff Rates



Customs checks and borders

Even with a relatively favourable tariff regime, the UK is likely to be outside the EU's customs union. Leaving the customs union is essential for the UK to have an independent trade policy – setting its own tariffs and negotiating FTAs with other countries. The UK will have a border with the EU customs union which will require administering and controlling. This has led to talk of queues of lorries outside Dover waiting to clear customs, the breakdown of just-in-time deliveries and a general clogging up of UK-EU trade flows and greatly increased costs. It is claimed that supply chains in the autos, aerospace, food processing and chemicals sectors would face additional delays and costs.

In our view this paints an excessively gloomy picture. Currently all UK-EU trade is exempt from customs processes but once the UK leaves the EU this traffic will need customs approval. For many cargo types and ports this will be a relatively straightforward process with agents completing formalities. However the majority of the UK's trade with the EU is via Roll-on Roll-off (ro-ro) ferry services where lorries carry freight through ports such as Dover, Holyhead and Portsmouth. For these operations any additional checks could potentially mean friction and delays. The UK Government has proposed an IT solution as an option to overcome the challenge.

The introduction of tariffs need not have a major impact on port operations as the fiscal process is handled away from the border and collection is not required for cargo to leave the port. It must be emphasized that outside the EU customs union the UK will be able to choose its own tariff regime which potentially could be a zero tariff, reducing the need for the collection of duties. But the initial response may be to replicate the tariff regime that applied as a member of the EU. It might be expected that the necessary customs checks would be an obstacle to trade. However only 1.5% to 2% of non-EU goods imports into the UK are subject to border inspections and approximately 80% of these are on environmental health grounds, such as food hygiene and quality standards. A high proportion of such checks are prescribed by EU law. The extension of this to all UK goods imports would not necessarily impose a burdensome cost to the trading of goods. For example, there would be no need for a large increase in UK Border Force officers or in warehouse storage capacity at ports. Innovations such as the pre-clearance of goods through customs for example could further reduce time spent at customs and the associated costs.

But customs documentation, unnecessary during the UK's EU membership, will in future be required for UK-EU trade. The costs of this additional administrative process are highly uncertain and the source of much recent debate. Most top-down estimates cluster around 1% of the value of goods traded, using data for non-EU trade[17]. In 2017 the UK's total goods trade (exports plus imports) with the EU was worth £430bn, so 1% of this would be £4.3bn. There would be some extra costs for rules of origin documentation too. However, at a recent session of the House of Commons Treasury select committee, Jon Thompson, the head of HMRC quoted an estimate four times higher at "£17bn to £20bn" a year (4% to 4.7% of 2017 goods trade)[18]. This calculation used a bottom up approach based on estimates for both the average cost of a customs declaration and the number of such declarations – plus £7bn for rules of origin compliance. Mr Thompson stated that the extremely large discrepancy between the two cost estimates occurred because UK-EU trade consists of a very large number of low value transactions compared with UK-non-EU trade. But the HMRC quoted estimate remains controversial and subject to criticism, as a static analysis with considerable double counting[19].

As discussed above Dover is by far the most important UK port for EU trade – its non-EU trade is relatively insignificant. (Dover also has limited scope to expand warehousing capacity.) However, there are several other ports well-

[17] See for example World Bank Cost of Doing Business Report 2018.
[18] Evidence to the House of Commons Treasury Select Committee 23rd May 2018
[19] See G Gudgin and J Mills blog, "Customs Costs Post-Brexit" https://briefingsforbrexit.com/customs-costs-post-brexit/

placed to handle any EU trade that may be diverted away from Dover post-Brexit. It should be acknowledged that the Dover-Calais route is highly efficient and trade diversion to other UK ports would involve additional costs at least in the short term.

There are additional issues in relation to trade in animal and plant products. Food safety and animal welfare are paramount in relation to the trade in animal products. At present there is no requirement for safety and health inspections as food is traded within the EU customs union. But as the UK leaves that customs union it potentially becomes a "third country" where increased regulation is highly likely. This will take the form of export licences, veterinary inspections and rules of origin documentation. For example, the export or import of animal products will have to be accompanied by a health certificate given by a qualified vet. The British Veterinary Association has estimated that, post-Brexit, there would be a three-fold increase in the volume of products requiring such certification[20]. The system is currently paper based which would add to administration costs. Digitalisation using block chain technology would allow information to be updated and shared along the supply chain in real time. The adoption of the new CDS for customs declarations (see next section) should improve matters. But there may be greater scope for technology to smooth trade flows in food and animal products, given the extra administration burden and the costs of any delays.

Border Inspection Posts are required for the importation of food products into the EU from third countries. As an EU member the UK does not require health inspections at border inspection posts when trading animal and plant products within the EU. Reflecting this there are currently few ports in Northern Europe that have such posts, Calais for example does not. The UK sea ports could suffer knock on delays if UK exports were held up by insufficient EU border inspection posts. Moreover, several UK ports would have to invest to establish border inspection posts for the importation of these products post-Brexit.

On leaving the EU, UK rules will be the same as those prevailing in the EU. The decision on whether and how these rules were to diverge would be for the UK parliament to decide. The best solution would be a Free Trade Agreement with the EU that incorporated a mutual recognition agreement acknowledging the equivalence of the effectiveness of the rules. The UK has high animal welfare standards which it will be imperative to maintain as a source of international competitiveness post-Brexit.

[20] "Brexit: Trade in Food" House of Commons Environment Food and Rural Affairs Committee, February 2018

The UK Government set out its views on proposed customs arrangements in a position paper last year[21]. There are three main proposals in relation to goods trade that would deliver a highly streamlined customs arrangement – the "Maximum Facilitation" model or "Max Fac" as it has become known. Firstly, it is intended to negotiate continuation of the waiver scheme allowing goods to be moved across the UK/EU border without summary declarations. Second, there will be negotiations on mutual recognition of Authorised Economic Operators (AEOs). This is an extension of the "trusted trader" scheme used by other countries and allows importers to fast track through customs, reducing checks, security and taxation requirements for importers. The Government paper contains an estimate that AEO status accounts for around 60% of the UK's imports and 74% of exports. Finally, the government seeks membership of the Common Transit Convention (CTC) which would allow goods in transit through the EU to avoid EU duties. Technological innovations involving for example drones and GPS tracking could further smooth the flow of goods. Some of these have been proposed in relation to the Northern Ireland-Ireland border issue[22].

These proposals if implemented would reduce administration costs and speed up the transit of goods across the border. They are of course subject to negotiation with the EU, but the smooth flow of trade between the UK and EU is in both their interests. The existing arrangements for non-EU imports into the UK are highly efficient and relatively low cost, reflecting in large part healthy competition between numerous privately owned British ports[23].

Customs declarations: CHIEF and CDS

HMRC is in the process of changing the UK's customs declaration system from CHIEF (Customs Handling of Import and Export Freight) to CDS (Customs Declaration Service). This decision predates the EU referendum and was based on the need to update the system and increase its flexibility. But leaving the EU has major implications for the new customs system. The main one is that instead of around 55 million customs declarations a year processed at present, the system may have to cope with over 250 million[24]. HMRC also estimate that 132,000 traders will have to make customs declarations for the first time after Brexit, adding to the 141000 that already do so. At present it is likely that the introduction of customs declarations with EU countries will occur after the

[21] "Future customs arrangements: A future partnership paper." HM Government August 2017
[22] "The EU's own report confirms that the Irish border issue can be resolved with technology" Graham Gudgin Policy Exchange blog 21st February 2018
[23] One issue to be resolved is the European Commission's legal action against the UK for €2.7bn of unpaid duties arising from the fraudulent under-reporting of Chinese textile imports. The UK disputes the claim, asserting that it has compiled with its obligations under EU anti-fraud legislation.
[24] "Brexit and the future of customs" House of Commons Committee of Public Accounts November 2017

implementation period ends in December 2020. But there remain a number of other potential outcomes, including "no deal" scenario that would result in customs declarations from next March.

The CDS system is being scaled up to cope with the greatly increased potential volume of declarations – at the same time as it is being phased in between August 2018 and January 2019. As a contingency the CHIEF system will also be upgraded and be run alongside the CDS for a period of time. But its lack of flexibility could be a drawback should it be needed. The combination of a new system with new technology at a time when the UK is leaving the EU clearly creates risks. Such risks are significantly reduced under current proposals as new customs arrangements are not likely until after December 2020. Encouragingly a National Audit Office report in June 2018 also reported that HMRC's contingency plans to run CHIEF and CDS together had reduced the risk of it not being able to cope in the event of a "no deal" which would mean new customs arrangements from March 2019.

Case study: The Port of Bristol

The Port of Bristol offers a case study that exemplifies the history, evolution and practical way that modern trade is handled. It illustrates how ownership, management and regulation can shape and constrain the commercial success of ports as businesses and both hamper and promote innovation.

The Port of Bristol also offers a perspective on post-Brexit trade issues. Some commentators suggest that if the UK leaves the customs union, then heavy customs and security checks at our borders will severely hamper trade flows. Bristol is a port that mainly handles imports and offers a good example of how modern customs and border controls work. EU imports have no tariffs. In contrast the EU Common External Tariff levies tariffs and duties on imported goods from outside the EU. In practice only about 2% of non EU cargoes are subject to customs inspections. These are mainly intelligence led operation directed at stopping imports of things such as weapons, unlawful drugs and perishable commodities that carry potential health risks. EU cargoes are subjected to roughly the same level of intelligence led searches, around 2% of all trades. Given the experience with non-EU it should be relatively easy using modern technology to construct a border checking regime that is efficient, cost effective and easy to navigate. A spokesman for the Port of Bristol said, "We are confident that our systems and operations will continue to operate smoothly and efficiently after Brexit. We expect that any additional administrative burden will be kept to a minimum and further mitigated with the use of technology. Bristol Port's trade currently comprises 66% non-EU (34% EU) and Bristol is predominantly an importing facility. We expect activity levels to increase in the years ahead – whatever the final Brexit outcome."

In 1991 the Port of Bristol was bought by private investors who invested more than £475 million to create a modern port, offering the full range of shipping, distribution and logistics services. The City Council has benefited greatly from this, directly through dividend payments on the shares it still owns in the business and indirectly from the economic stimulus generated by the operation of a successful port in the city.

The natural evolution of the Port of Bristol was held back throughout the post-war years by the effects of the National Dock Workers' Scheme established in 1947. This gave trade unions an effective veto on any proposed changes and resulted in the ossification of employment practices that traced their origin back to the unloading of sailing ships. In practice it made it time consuming and expensive to introduce new cost effective labour saving technology. Inevitable change was delayed and made more expensive.

Supply chains

A concern is that integrated supply chains including just in time delivery, will be disrupted once the UK leaves the EU. Several manufacturing sectors have significant domestic and foreign supply chains associated with them. The auto industry is perhaps the most well-known, employing around 169,000 directly and a further 645,000 in related industries. Others include food processing, oil and petroleum and pharmaceuticals. All have integrated supply chains involving cross-border trade usually with both EU and non-EU countries. Below we discuss possible supply chain issues in car production and food processing.

Cars

The car industry is a major producer and exporter – with 80% of output exported. In 2016 these exports were worth £37bn. But the UK imports £54bn of cars, giving a deficit of £17bn. Much of this trade is with the EU: 54% of car exports go to the EU and 69% of car imports are from the EU[25]. These proportions are higher than for goods and services as a whole. Indeed, vehicles are both the biggest export and the biggest import item in goods trade with the EU. There is also a very high import content in UK car production, averaging 60%. Components are often imported, exported and re-imported before being incorporated into final assembly. Most imported components are mainly EU-sourced but a small proportion also comes from non-EU countries. The supply chain is highly integrated and reliant on efficient port services at Southampton.

Given the integration and trade flows between the UK and the EU 27 there is a strong incentive to reach an agreement in in this area. Supply chains need not be

[25] SMMT Motor Industry Facts 2017

seriously disrupted, although adjustments may be required in certain areas. But highly efficient port services, combined with advance customs clearance, points to no major disruption. Of course there is the potential issue of tariffs that might raise the cost of car production through increased component costs. But even if there is no specific UK-EU trade deal the UK would be free to reduce or even eliminate tariffs on component imports in order to smooth the operation of supply chains. (See also the discussion on Free Ports below.)

Agriculture and Processed foods[26]

Agriculture has the highest import tariffs in the EU's customs union creating an artificial market with high protective barriers. Processed meat, dairy products and sugar are subject to the highest tariffs (see chart of EU tariffs above); at the extreme the tariff on processed chicken is a remarkable 88%. The overall effect is to push UK food prices 15% to 20% above world levels. The food and beverage manufacturing industry employs around 400,000 in the UK and agriculture itself a further 470,000. Inevitably given the high external tariffs, the UK's trade in agricultural produce is more integrated with the EU than trade in goods generally: 60% to 65% of exports and imports of food and agricultural produce are to/from the EU compared with around 50% for goods as a whole. Total food, feed and drink exports from the UK were £20.2bn in 2016, imports were £42.4bn, giving an overall trade deficit of £22.2bn[27].

Supply chains are often highly integrated with processing facilities located at or very close to ports. For example, there is a flourmill at Southampton and refining facilities for palm oil at Hull, Liverpool and London. Since the latter comes exclusively from tropical climes and not the EU Brexit will leave things unaffected. And of course for all food and agricultural imports the UK has the option of applying its own tariff regime – at zero if the Government so chooses.

Unless the UK stays in the EU customs union, there will almost certainly be major implications and probable structural shifts in the UK's trade in agricultural produce and food after Brexit. By choosing a low or even zero tariff regime there would probably be a rise in imports of, for example, cheaper dairy and beef products from outside the EU such as from Argentina, the US and Australia. Again UK ports may have to adjust to cope with a greater volume of food imports from outside the EU – indeed this seems very likely. But such adjustments are feasible and a competitive ports sector is well placed to provide the necessary facilities.

[26] For an in-depth analysis of the issues facing agriculture post-Brexit see "Farming Tomorrow: British Agriculture after Brexit" Policy Exchange August 2017
[27] "Food Statistics in Your Pocket 2017- Global and UK Supply" DEFRA November 2017

The UK's agri-food exports to the EU may be subject to both tariffs and non-tariff barriers after Brexit, depending on the nature of any trade deal. If there was no trade deal at all then UK exporters would face high tariffs to export into the EU customs union and single market. There may also be significant transaction costs imposed as a consequence of the UK no longer being a member of the Common Agricultural Policy. For example, import licences are required in order to import a wide range of produce that originates from outside the EU. These include beef, poultry, pork, cereals, milk and other dairy products. Additional trading costs may arise from rules of origin and health and safety checks.

According to the Food and Drinks Federation, food and drinks exports were worth £20bn in 2016 with 60% going to the EU[28]. There may be significant dislocation to these exports, especially if there is no UK-EU trade deal. But the sector is competitive and dynamic and can seek out other export markets outside the EU. Obvious candidates include the US, Australia and New Zealand. Indeed, the US is already the sixth largest market for UK food and drink exports, behind the large EU countries. These trade adjustments will take time, which is to be expected after over 45 years in an artificial and protected EU market. Some loss of trade and hence port activity in the short term may occur as the industry responds and adjusts. But the sector will rebound and ultimately seek out other export markets.

There is clearly potential for a major negative shock to the UK agriculture sector if tariffs and subsidies are removed. However, it should be stressed that Policy Exchange is advocating a fairly lengthy transition period with a gradual removal of farming support over a number of years. One suggestion is that tariffs and subsidies are reduced together with both being phased out by 2025.[29]

[28] Exports Snapshot 2016 Food and Drink Federation www.fdf.org.uk
[29] "Farming Tomorrow British Agriculture After Brexit" Policy Exchange August 2017 p44

Other issues

The New Industrial strategy

In November last year the Government published a White Paper on Industrial Strategy entitled "Building a Britain Fit for the Future." The White Paper contains a commitment to "support businesses to access international markets and boost exports" (p183). To this end a review of export strategy is under way and is due to report in the spring. One existing commitment is to establish a network of nine Trade Commissioners, each with a regional trade plan covering export promotion, investment and trade policy. There is no accurate measure of the proportion of UK companies that are exporters – estimates are in the 9% to 11% range. The Trade Bill currently before parliament contains a clause that authorises HMRC to collect information on which companies are engaged in exporting goods and services[30].

Meanwhile, the Department for International Trade is seeking out a new trading relationship with the EU and other countries, such as the US, China, Canada and Australia. These goals are laudable especially as the UK leaves the EU and seeks out new trading relationships. Ultimately the UK's ability to compete in export markets depends on its supply-side performance and productivity which in turn is determined by skills, innovation, R&D and labour market flexibility. These form many of the pillars of the new industrial strategy referred to above.

Free Ports

The establishment of Free Ports – or Free Trade Zones – could help exporters, in particular the car industry. These would be areas within the UK geographically but legally outside the customs territory. Goods can be imported, manufactured and re-exported without incurring domestic customs duties or taxes. Free Ports invariably come with other incentives such as lower taxes or tax exemptions, R&D tax credits and subsidies. The UK is constrained in its ability to set up Free Ports as a member of the EU single market and customs union. Once outside these the UK would be free to determine its own trade policy. This may include the creation of Free Ports with added state support, depending on any UK-EU agreement on state aid rules. A range of benefits is claimed for Free Ports in the UK including a revival of manufacturing and a reduction in levels of economic deprivation since free ports would be disproportionately based in areas of relative poverty.

[30] UK Parliament Trade Bill 2017–19 Clause 7

In relation to cars, benefits could arise from the avoidance of import tariffs on component parts if the UK does not secure a FTA with the EU and reverts to WTO rules. The average tariff on components under WTO rules is around 4.5% which may be applied to the 20% to 50% of car components currently arriving tariff-free into the UK from the EU. The SMMT estimate that the imposition of such tariffs would add between £350bn and £875bn to the costs of UK car manufacturing, reducing its competitiveness and adding to costs for domestic consumers[31]. The creation of Free Ports would prevent this additional cost.

Our view is that Free Ports may be worth considering but primarily as a means to offer tariff-free access to components and other goods coming into the UK. We are rather less enthusiastic about offering generous tax breaks and subsidies in an attempt to attract businesses to locate within Free Ports. Such state largesse may fall foul of international trading rules if it constitutes an export subsidy, which of course is contrary to the principles of free trade. We recommend that free ports be considered once the UK has regained an independent trade policy. But the issue of significant tax breaks and subsidies should remain off the agenda.

Infrastructure

Infrastructure investment is also crucial in maintaining efficient supply chains and easy access to and from ports for exports and imports. Transport costs per unit over land to and from sea ports can be a multiple of the cost of transport over long distances by container ship. Economic studies have shown that transport costs can have a significant influence on trade flows[32]. Hence it is vital that internal transport links are efficient and integrated wherever possible with ports. Integrated transport links will further encourage investment in ports infrastructure, boosting capacity and productivity. The UK has an ambitious infrastructure programme called "The National Infrastructure and Construction Pipeline", containing around £500bn of projects. At present a thorough economic impact appraisal takes place as part of a cost-benefit analysis of any project. But there is no explicit account taken of the potential for smoothing the transport of exports and imports to and from ports. As an open economy outside the EU internal transport costs can make a significant difference to total transport costs. Fast tracking of planning applications within the vicinity of ports would help in this respect.

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[31] UK Tariffs on EU imports SMMT Issue Paper, November 2016
[32] See "Transport costs and International Trade", A. Behar and A. Venables University of Oxford 2011

The EU Port Services Regulation

The EU Port Services Regulation illustrates well the different market structures and policies with regards to ports in the UK compared with other EU countries. Most ports in continental Europe are large and either state owned or in receipt of substantial amounts of state aid and grants. For example, Rotterdam (the Netherlands), Antwerp (Belgium) and Hamburg (Germany) are the dominant ports in their countries. By contrast UK ports are privately owned and operated; they are numerous and compete with one another. As discussed in the introduction, seven ports share around three quarters of the market.

The declared intention of the European Commission's Port Services Regulation is to boost competition in the European port industry by requiring ports to offer their services such as piloting and mooring out to third party providers. This policy, designed to increase competition *within* ports, may be appropriate for the dominant European ports. But it makes no sense for those in the UK which are smaller and compete with each other. Indeed, the regulation could be damaging for UK ports with costly compliance potentially limiting investment in ports.

The Port Services Regulation was passed into EU law in March 2017 with a period of two years for national governments to implement its measures where necessary. March 2019 is when the UK is due to leave the EU. The Port Services Regulation, along with other European legislation, will be part of the Acquis frozen by the EU Withdrawal Bill, which is currently passing through parliament. This Bill translates EU law into UK legislation so that as the UK leaves the EU, the Port Services Regulation will be incorporated into UK law. Hence until and unless it is revoked, the Regulation will apply to UK ports, potentially adding unnecessarily to costs. A spokesman at the Bristol Port Company said, "The EU's Port Services Regulation is inappropriate for British ports – it is designed to promote competition within the very large ports of continental Europe. The UK's major commercial sea ports are private businesses that compete with each other and Bristol Port is highly competitive. Our ability to compete would be damaged if we were forced to submit our services to external sourcing under this EU Regulation – it should not be applied in the UK"

Policy Recommendations and Conclusion

The following are the main policy recommendations arising from this Report;

- In order to boost trade flows the Government should actively promote the benefits of free trade and pursue consistent policies, including negotiating free trade agreements (FTAs). The Government should also consider unilaterally lowering or completely removing import tariffs generally but especially on manufacturing components, such as those for cars. Such unilateral action would benefit consumers generally but impose costs on certain sectors of the economy and associated employees. Policy Exchange advocates a transition period and gradual removal of tariffs.
- In order to ease supply chain issues, Free Ports should be considered but on the narrow definition where all import tariffs are removed in a geographical area surrounding a port. Free Ports would not be necessary if the UK were to adopt a policy of unilateral free trade after Brexit. However, we do not support the granting of generous tax breaks and subsidies as a way of encouraging manufacturers to establish facilities within Free Ports.
- In order to smooth the flow of goods across borders, customs clearance should be speeded up wherever possible by adopting "trusted trader" schemes and advance clearance measures. The Government should encourage the adoption of technological innovations wherever possible to minimize delays and the costs of transporting goods across UK borders. In addition, infrastructure spending should consider the degree to which it facilitates trade by integrating with major sea ports.
- Every effort should be made to ensure that the new Customs Declaration Service (CDS) is operational with full capacity well ahead of any change in customs arrangements.
- In order to avoid burdensome regulation on UK sea ports, the EU Port Services Regulation should ideally be removed from the EU Withdrawal Bill. At the very least, the Regulation should be repealed at the earliest opportunity. This Regulation is an attempt to encourage competition within the dominant sea ports of continental Europe where there is relatively little competition. By contrast UK

ports compete with each other and there is no need for them to be required to submit their services to outside competition.

This paper has shown that the outlook for the UK's sea ports is generally a positive one. The flow of goods into and out of sea ports will continue to trend upwards – albeit subject to deviations around this trend. One of these deviations is likely to occur either when the UK technically leaves the EU in March 2019 or, more likely, at the end of a transition period. In our view the effect of this will be more of a short-term economic shock rather than a permanent loss of income. Recoveries from such shocks, such as natural disasters, are usually quite swift[33]. The severity of the "Brexit shock" will depend to a large extent on the nature of any trade deal negotiated between the UK and EU. Clearly no deal would constitute the biggest shock. But the key feature of such shocks is that their effects ultimately wear off and economies make up lost ground – usually quite quickly. Depending on the exact nature of any trade deal – or indeed no deal at all – the UK economy may face a supply shock that requires adjustment. But a flexible and dynamic economy such as the UK will adjust and adapt to any new set of circumstances. Fairly quickly UK exports to the EU will return to growth but resuming the previous trend of a slower rate of growth than exports to non-EU countries. The latter could be given a further boost by Free Trade Agreements with countries such as the US, Australia and New Zealand once the UK has departed the EU. It is the Government's intention that negotiations on these trade deals can begin during the transition period after the UK has formally left the EU in March 2019. FTAs could then be signed and implemented any time after the end of the transition period. Britain's efficient, highly productive privately run sea ports are well placed to take advantage of this expanding area of activity.

[33] See for example "Global Economic Consequences of the Earthquake in Japan" ECB Monthly Bulletin May 2011

Appendix: the structure of UK trade[34]

In 2017 the UK ran a trade deficit in goods and services of £33.7bn (1.7% of GDP). This is made up of a surplus on services trade of approximately £104bn and a deficit in goods trade of £138bn.

In terms of goods and services 44% of UK exports go to the EU, down 10 percentage points from 10 years ago. Last year 53% of imports came from the EU – the trend here has been less clearly defined, having risen from 50% in 2011. But in 2002 the proportion was as high as 58%. The US remains the UK's single largest trading partner. The table below shows the breakdown of total trade between the EU and non-EU.

Figure 9: UK trade 2017

UK Trade with EU and non-EU countries Goods and services					
	Exports		Imports		Balance
	£bn	%	£bn	%	£bn
EU	275.4	44	347.6	53	-72.2
Non-EU	346.7	56	305.5	47	41.2
Total	622.1	100	653.1	100	-31.0

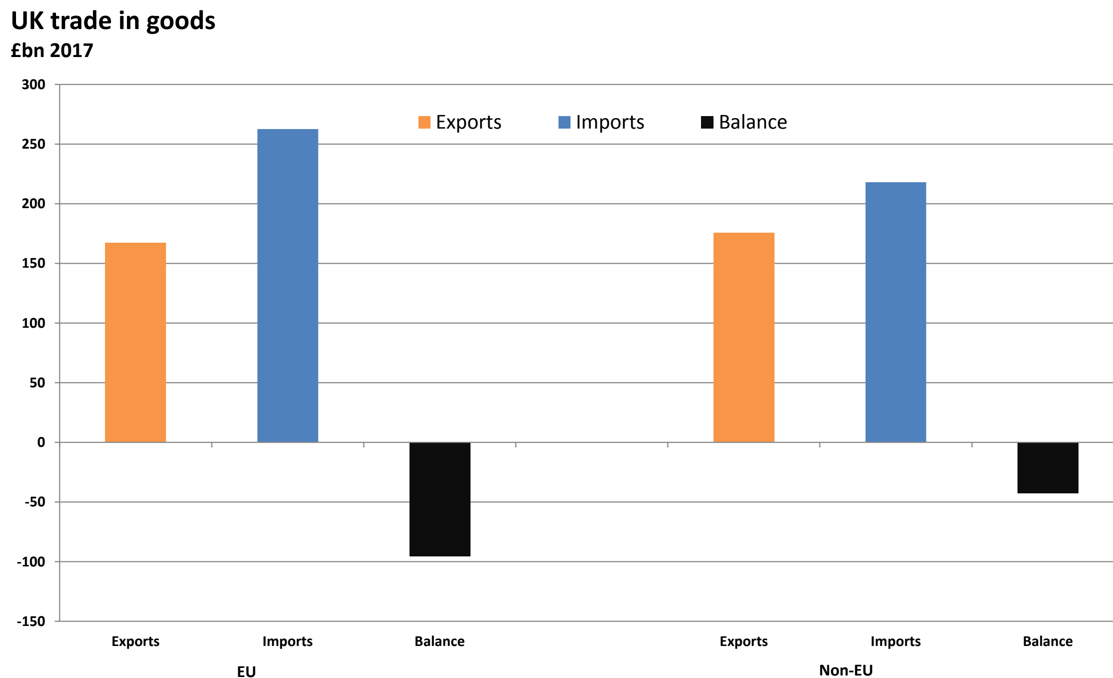
Source: ONS Trade Statistics, Economic Accounts

Trade in goods

Total goods exports in 2017 were worth £342bn (17% of GDP). Forty-nine per cent of these exports went to the EU, 51% to non-EU countries. Total imports were £480bn, giving a goods deficit of £138bn. Just over £95bn of this deficit is with the EU where imports totalled £262bn or 55% of the total. (See chart on p29.)

[34] The data quoted in this section are from ONS Trade Statistics

Figure 10: UK goods trade: EU and non-EU



Source: ONS Trade Statistics

It should be noted that the proportion of goods trade with the EU may be exaggerated due to the so-called "Rotterdam effect". This is the idea that trade in goods with the Netherlands – and therefore also the EU – is artificially inflated by those goods dispatched from or arriving in Rotterdam as the ultimate destination or country of origin is located elsewhere. On some metrics Rotterdam is the largest port in Europe and acts as an entrepot for substantial amounts of EU trade. The Office for National Statistics (ONS) does not have an accurate estimate of this effect. But a plausible assumption made by the ONS[35] is that 50% of trade with the Netherlands is actually trade originating elsewhere. For 2017 this has the effect of reducing the share of UK goods exports to the EU by around three percentage points to 46% and the share of goods imports from the EU by four percentage points to 51%. The discussion below does not attempt to correct for the Rotterdam effect, given the difficulty in estimating its true scale.

[35] House of Commons Library Briefing Paper Statistics on UK-EU Trade January 2017 Appendix 1

Main categories of UK goods exports and imports

The table below shows the main categories of goods exports and imports. While the precise order and amounts change over time these categories are consistently the most significant[36].

Figure 11 Main categories of goods exports and imports

2017	Exports	£bn	% of total	Imports	£bn	% of total
1	Machinery inc computers	52.8	15.3	Machinery inc computers	62.0	12.5
2	Vehicles	41.6	12.1	Vehicles	57.3	11.5
3	Mineral fuels including oil	27.1	7.9	Electrical machinery	46.6	9.4
4	Pharmaceuticals	25.5	7.4	Mineral fuels inc oil	40.2	8.1
5	Gems, precious metals	25.5	7.4	Gems, precious metals	38.5	7.7
6	Electrical machinery	22.1	6.4	Pharmaceuticals	25.7	5.2
7	Aircraft, spacecraft	16.4	4.7	Plastics, plastic articles	14.3	2.9
8	Optical/medical equipment	14.0	4.1	Optical/medical equipment	13.8	2.8
9	Plastics, plastic articles	9.4	2.7	Aircraft, spacecraft	11.6	2.3
10	Organic chemicals	8.0	2.3	Clothing and accessories	9.7	1.9
	Total exports	342.0	100.0	Total imports	490.0	100.0

Source: HMRC 2017

The table is a breakdown for all goods trade – a corresponding table for EU trade would show a similar pattern with the exception that for both exports and imports vehicles would be the biggest category.

The main product areas which have seen significant growth in exports in recent years include vehicles (up 27.7% in value over the five years to 2017), aircraft (43.6%) arms and ammunition (39.8%) and clothing (32.3%). Smaller goods categories with strong export growth include clocks and watches (63.8%) and musical instruments (70.2%). By contrast there have been significant falls in the exports of tobacco products (down 58.2%) and photographic products (down 53.9%)[37].

[36] UK overseas trade in goods statistics December 2017: import and export data, 8th February 2018 https://www.gov.uk/government/statistical-data-sets/uk-overseas-trade-in-goods-statistics-december-2017-import-and-export-data

[37] UK overseas trade in goods statistics: EU and non-EU exports data

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