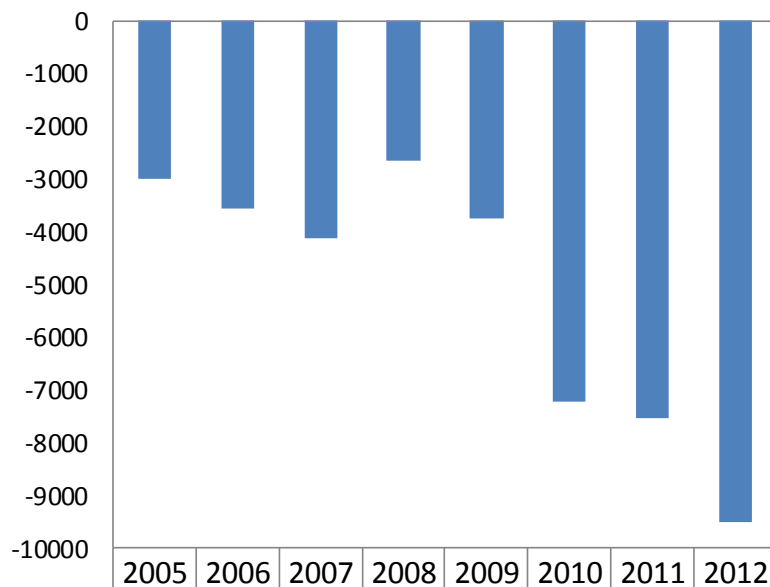


How much are we really paying to the EU?

Conflicting sets of numbers bewilder people. So I hesitate to bring attention to the latest official information on the UK's payments to the European Union, as the topic is a statistical minefield. (And even if a new visitor somehow avoids the mines, he or she is still liable to end up lost in a numerical fog.) However, some comment is needed on the latest *Pink Book* from the Office for National Statistics, which has stimulated a bit of a hullabaloo. The main points here are:

1. The *Pink Book* shows that, on an annual basis and using a concept called 'UK net contribution to the EU', the UK's net payments to the EU have risen steeply in the last few years.
2. However, the *Pink Book* is not the whole story. Quarterly numbers are in fact published for the UK's credits and debits with EU institutions. For a concept known as 'Current transfers balance, of which: To EU institutions', the deficit is rather higher than for the 'net contribution' figure, while the rise in the deficit has continued into 2013.
3. In the year to the first quarter 2013, the net deficit on payments to EU institutions (using the 'current transfers balance') was an all-time record of £11.4b., about 3/4% of the UK's gross domestic product.

One measure of the UK's net deficit on payments to EU institutions (in £m.)
- Note that the 'UK net contribution to the EU' does not include private sector debits/credits, even though these arise from the treaties



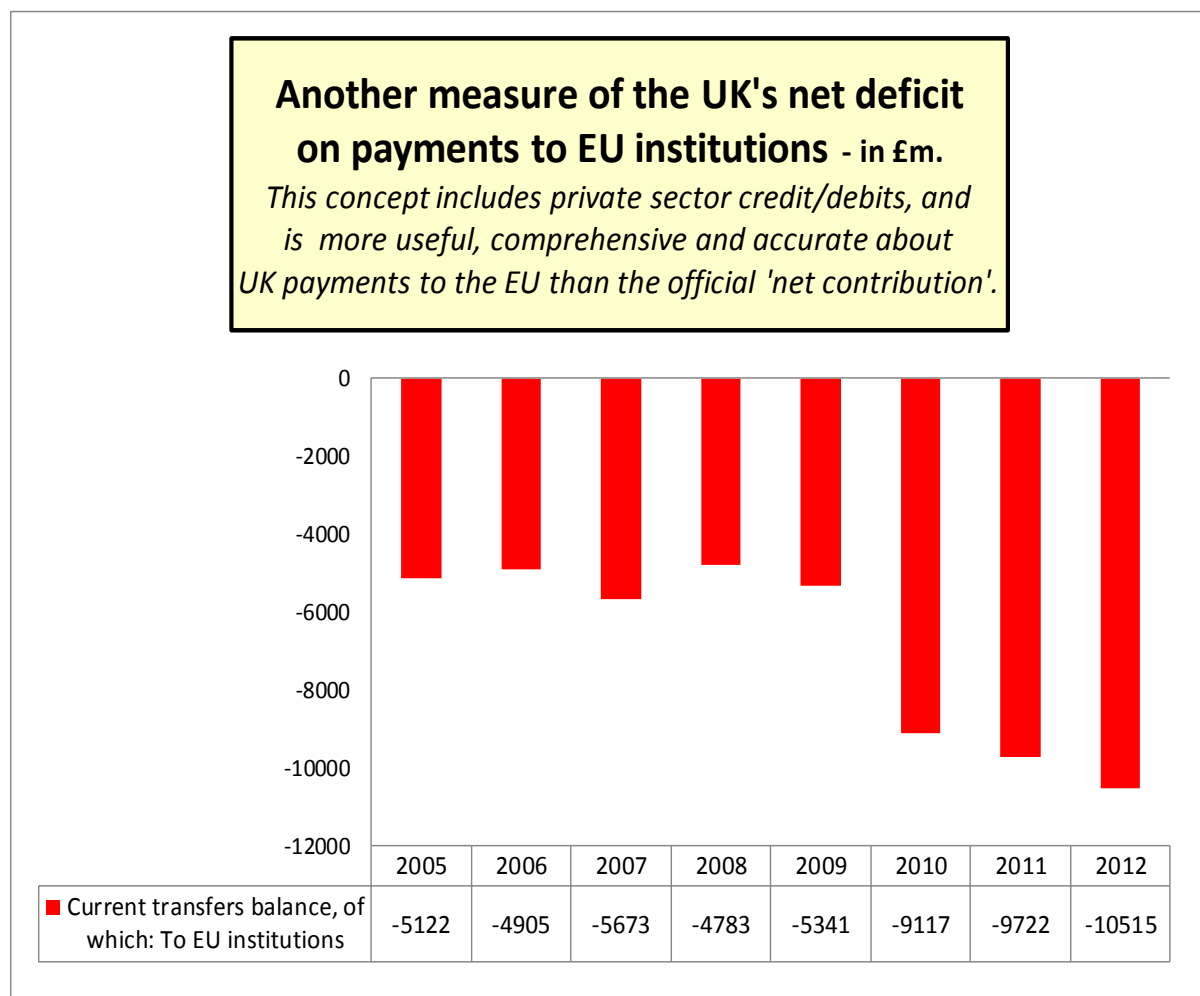
■ UK net contribution to the EU, according to the *Pink Book*, in £m.

The *Pink Book* numbers

The *Pink Book* is an annual publication from the Office for National Statistics on the UK's balance of payments. It contains more detail than the quarterly balance-of-payments releases and the monthly trade figures. For example, its table 9.9 on 'UK official transactions with institutions of the EU' is often regarded as a concise and reliable summary of our financial position relative to the EU, and hence as being particularly useful in the various debates on EU membership. The bar chart above gives its figures for what it terms 'UK net contribution to the EU' since 2005. The deficit was £7.5b. in 2011 and £9.5b. in 2012. The 2012 number was more than treble that in 2005, a development highlighted with understandable concern by several Eurosceptic commentators.

Quarterly balance-of-payments press release number

But the *Pink Book* is not the only source. The quarterly press release has a category for the balance on transfers between the UK and the EU institutions which purports to reflect *all* debits and credits arising from our relationship with the EU. The chart below gives the numbers for this concept, also on an annual basis, over exactly the same period as the chart above.

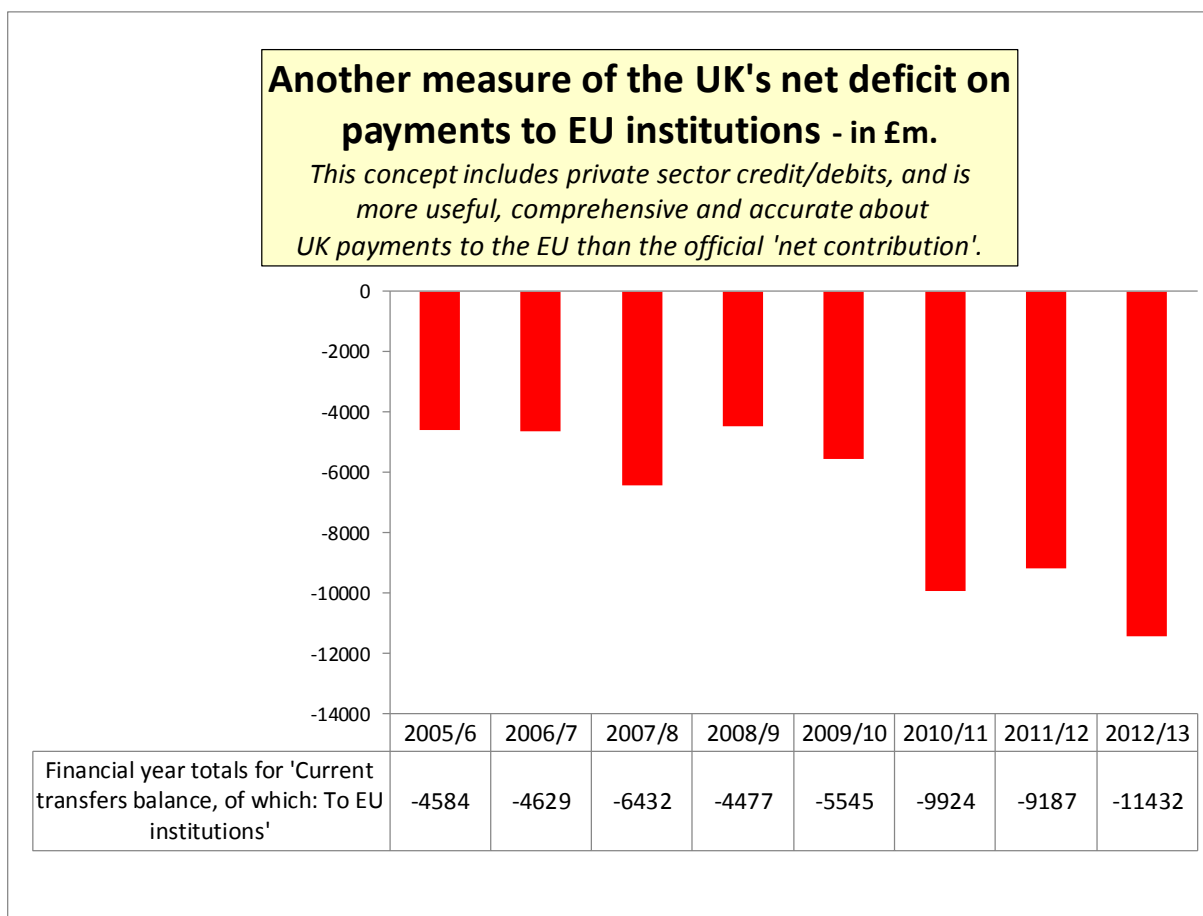


Quick inspection shows that this set of numbers is higher than the first, typically by between £1b. and £2b. a year. Why is that?

The answer is that this set of numbers *includes the private sector's debits/credits in its transactions with EU institutions*, whereas the previous one (i.e., table 9.9 in the *Pink Book*) covered only official transactions and therefore *excluded such private sector debits/credits*. In this sense the number presented as 'the UK net contribution to the EU' in the *Pink Book* is deceptively low and, in my opinion, should not be widely quoted. (I do not know who decided to label the concept in the misleading way chosen, but am inclined to discount conspiracy theories.)

The very latest quarterly figures

So the balance-of-payments press release has the figure for the balance of *all* transfers between the UK and the EU. Not only is this figure more comprehensive than the so-called 'net contribution to the EU', it is also published more frequently and with a shorter lag in a quarterly press release. The figure is therefore now available for the first quarter 2013 and hence for the financial year 2012/13. The bar chart below sets out the story.



The main point from this chart is that the financial year to the end of the first quarter 2013 was about £1b. worse than the calendar year 2012. The net deficit on payments to the EU in the first quarter 2013 by itself was in fact £3.4b., the highest ever figure. Indeed, the deficit on *net* payments is now about ¾% of gross domestic product. This is not a trivial number in relation either to the UK's national output or to its budget deficit. Further, the sharp rise in this deficit in the last few years of financial crisis and budgetary restraint is a sorry comment on mistakes by recent leaderships of both the main political parties.

Conclusion: the ‘right’ number and the reasons for the steep rise in the cost of EU membership

As I said, there has been ‘a bit of a hullabaloo’ in the Eurosceptic blogosphere about the latest *Pink Book* numbers. The £9.5b. net cost of our EU contributions (excluding private sector transfers) in the year calendar year 2012 was disturbing and justified a great deal of criticism. But, in fact, the correct figure in public debate is surely the *net cost including private sector transfers* and that is quite a bit higher. Indeed, in the year to the end of the first quarter 2013 the net cost on the more comprehensive basis was £11.5b., about ¾% of GDP. I don’t have time for a detailed discussion of the reasons for the surge in our EU contributions, but I believe two considerations have been uppermost.

1. Tony Blair’s surrender of part of the rebate at the December 2005 meeting of the European Council, which had a cost of about ¼% of GDP and has come through in the last few years, and
2. The present government’s closure of the ‘regional development agencies’.

Blair’s surrender of part of the rebate was discussed in the first chapter of my 2012 exercise for UKIP on *How much does the European Union cost Britain?* I may be wrong on the second point, and am open to correction and criticism. But I think what has happened is that the coalition government decided to close the RDAs on the grounds that they were an unnecessary tier of government, but overlooked that they were the conduit by which EU regional money is distributed to the handful of UK regions that qualify for money. (Can readers please correct me if there is something else I have not noticed? And, as I said, I may be wrong on the second point, certainly on its details.) In my view,

1. The gross cost of our EU contributions is in fact a better guide to the direct cost to the UK taxpayer, because so much of the returned money is misspent. The gross cost has not in fact increased so dramatically as the net cost and is about 1% of GDP.
2. The discussion in this note has related solely to the direct cost to the UK taxpayer and citizen because of transfers, mostly inter-governmental transfers, arising from the EU treaties. But the much more serious costs of EU membership are
 - i. the regulatory burden of the *acquis communautaire* and
 - ii. the resource misallocation attributable to the Common Agricultural Policy and more general EU protectionism.

But, although the damage from EU regulation and resource misallocation are the most fundamental burdens arising from our EU membership, we must still keep a track on the direct payments to and from the EU institutions. It is clear that the net cost to the UK from these payments has soared in recent years, even though this has been a period in which the UK public’s enthusiasm for membership has declined sharply.



Economics spokesman for the UK Independence Party

6th August, 2013