In case any of you were thinking of attending I have done some notes for today's Westminster Hall debate on the Government's leaflet (and the HMT report).

HMG's leaflet: main issues:

- The cost at £9m compared to official campaigns (and residual exposure via the website during purdah period)
- UK Government partiality, given no opposing case was put.
- Selective statistics

Some odd claims in the document.

- "*The UK has a special status*"
  – the UK has a Euro opt out dating back to Maastricht, this is not a consequence of the recent deal. The UK is now subject to Eurozone caucusing as the Eurozone has 65%+ of the votes.

- "*there will be tough new controls on access to our welfare*"
  – it is not a fact that either they are "tough" or that they will come in (subject to MEPs, Council, ECJ etc).
- Selective statistic picking – i.e 47% of aerospace exports go to EU?
  ONS stated that "In 2013, non-EU exports accounted for around 74% of total aerospace exports, with EU exports making up the remaining 26%."
  http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/uncategorised/summary/changing-shape-of-uk-manufacturing---aerospace/sty-uk-aerospace-industry.html
- "*over 3 million UK jobs linked to the EU*"
  – this is an old rogue statistic designed to mislead (i.e based on trade stopping) it was first discredited by its own author (although HMT have remade a similar one since)
  https://fullfact.org/europe/uk-jobs-and-eu/

  One of the authors of the original 2000 research, Professor Iain Begg, commented to the Telegraph last year that:

  > "*The key point is to establish that such a high proportion of jobs in the export sector depend on demand from other countries in the European Union, and they become a bit more vulnerable if Britain decides to leave the European Union.*
  >
  > *"It wouldn't mean an overnight loss of jobs; it wouldn't mean there would be a loss of prosperity instantly, just that the risks become greater*."

- It is one sided in that it assumes £ would fall and takes only the negatives of this rather than positives from exporters.
- No attempt has been made to address any positives.

- It is a leap to say costs of flights are linked to EU – these companies are more efficient and have cheaper fuel prices. [On phones domestic customers forced to subsidises customers across EU.]

Improving on reality:

- **The report states that 8% of EU exports go to the UK in order to argue that the UK would have little bargaining power.**
  This is a distorted statistic. The 8% is not a % of EU exports it is the % of all EU exports including those exports that go between EU27 members, i.e French exports to Germany and German to France etc. This would be a kin to adding English exports to Scotland and vice versa in as UK exports. The True figure for EU exports is c.12% for goods and 16% for goods and services.[1] This statistic, also used in the Government leaflet, is used to argue that the EU has a mismatch in bargaining power in any negotiation. [See FN 73 on p.118 of the report that notes 'intra EU exports']

- Report states that upside of EU crime cooperation without stating the downsides in terms of civil liberties or that EU free movement rules and Charter of Fundamental Rights makes it impossible to keep some undesirables out.

[1] Pollstation, http://www.pollstation.uk/eu-referendum/are-the-governments-facts-on-eu-trade-correct/ and Jonathan Portes; https://whitewednesday.wordpress.com/2016/04/10/portes-answer/

ERG: HM Treasury Brexit analysis

- **HM Treasury research has found that by 2030 the UK economy would grow by 6.2% less if the UK left the EU and had a bilateral agreement than if it stayed in the EU.**
- **By using a GDP per household (not per capita or income) HMT came up with a £4,300 'loss' figure. [The per capita figure would be c.£1,870]**
- **No potential benefits of Brexit are included in the calculations. Some benefits of "better regulation" are ascribed to remain.**
- **Assumptions underpinning the forgone GDP gain include the UK having no other non-EU free trade agreements.**
- **Migration estimated using ONS statistics as 329k in 2014 to 185k from 2021 onwards under all scenarios, ignoring renegotiation.**

[HM Treasury analysis: the long-term economic impact of EU membership and the alternatives]

Some context:

The CEBR calculate that between 2015 and 2030 the UK economy will expand by 34.2%. So a loss in growth of 6.2% is c.18% of potential growth over the period.[1] It is not a loss more a lost growth opportunity.

How the HMT model works:

The HMT model is a gravity model[2] to assess the impact of different trade relations on the UK economy and assumes that greater exposure to trade leads to greater productivity and FDI. A reduction in trade flows they assume leads for less economic growth.

The UK's goods trade and services trade are measured separately. As the single market in services trade is less developed the 'loss of benefit' modelled is mostly hypothetical based on future gains from liberalisation rather than a loss in current trade.

Some odd assumptions:

[1] CEBR, Centre for Economic and Business Research; http://www.cebr.com/wp-content/uploads/2015/12/Cebr-World-Economic-League-Table-2016-26-December-2015-final.pdf
[2] Wikipedia, Gravity Model of Trade; https://en.wikipedia.org/wiki/Gravity_model_of_trade

- **Uses Canadian model in its entirety**: The central quoted scenario relates to the UK mirroring the Canadian agreement with the EU. This is unlikely to be an exact model for the UK.
- **There will be no other UK Free Trade Agreements**: The model seems to imply that the UK would give up all the worldwide EU backed free trade agreements, not replace them and not conclude any other agreements for the whole of the period until 2030.
- **Does not ascribe any benefits to Brexit**: The GDP loss is the supposed captured loss of GDP for leaving the EU, however there is no corresponding attempt to model any benefits. The most obvious ones are the EU budget contribution and potential benefits from deregulation. Despite this some benefits of "better regulation" are ascribed to the remain scenario.
- **Modelling permanent uncertainty**: The HMT analysis adds in a "persistence impacts" of 1% of GDP based on the uncertainty created by the event of Brexit. It seems odd to model uncertainty over a 14 year period. Open Europe described this as "*a permanent cost imposed in the long run due to the short term uncertainty*"[3]
- **Assumes maximum services liberalisation within the EU**: A heroic assumption given the difficulty services liberalisation has had to date.
- **Electricity prices will come down as a result of future EU membership**: This is perhaps an odd assumption given the EU's impact on energy policy.

Improving on reality:

- **The report states that 8% of EU exports go to the UK.** This is a distorted statistic. The 8% is not a % of EU exports it is the % of all EU exports including those exports that go between EU27 members, i.e French exports to Germany and German to France etc. This would be a kin to adding English exports to Scotland and vice versa in as UK exports. The True figure for EU exports is c.12% for goods and 16% for goods and services.[4] This statistic, also used in the Government leaflet, is used to argue that the EU has a mismatch in bargaining power in any negotiation. [See FN 73 on p.118 of the report that notes 'intra Eu exports']

Comparison to other reports:

Migration ignored

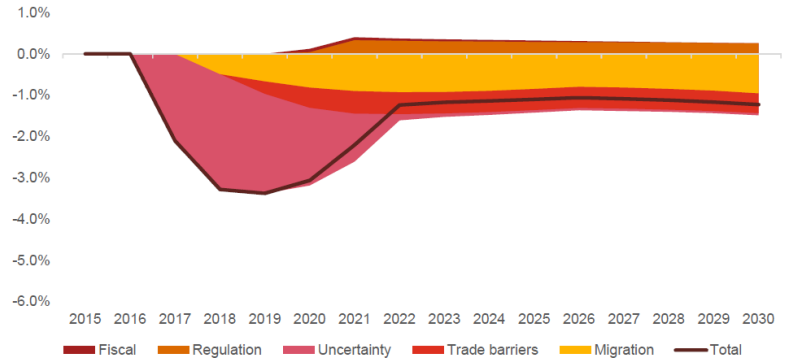
One of the biggest differences between the HMT report and other reports such as the recent CBI report is the treatment of immigration. The CBI report explicitly measured the impact of forgone immigration as one of the major factors in GDP loss:

---

[3] Open Europe blog, 19 April 2016, http://openeurope.org.uk/today/blog/treasurys-brexit-report-what-does-it-say-and-how-credible-is-it/

[4] Pollstation, http://www.pollstation.uk/eu-referendum/are-the-governments-facts-on-eu-trade-correct/ and Jonathan Portes; https://whitewednesday.wordpress.com/2016/04/10/portes-answer/

Figure 5.3: FTA scenario results – percentage difference from the level of real UK GDP in the counterfactual



Source: PwC analysis

CBI estimate of GDP impact of less migration[5]

It must be assumed that as the HMT does not factor in any loss of GDP for loss of immigration their actual GDP loss per capita is far higher.

Relationship between fall in trade and productivity overestimated by 100%?

A key part of the HMT report is that a drop in trade will lead to a drop in productivity this is referred to as "elasticity". Oxford Economics ran a similar model but used an elasticity half that of HMT.[6] Open Europe also notes that while increased productivity from greater openness has been modelled, it is an assumption to say that once openness has been achieved the productivity gains are lost by a relative loss in openness.

<u>Note on % of EU Goods exports to UK:</u>

Total EU exports to ROW of goods in 2014 was €1,703,019m[7]

Less rEU exports to UK (taken from the 2014 UK EU import figure in pink book)[8]

= £147,618m (c. €185,697m)

So EU exports to ROW are: €1,517,322m

So exports to UK / exports to ROW are: 12.23%

[5] CBI, April 2016; http://news.cbi.org.uk/business-issues/uk-and-the-european-union/eu-business-facts/eu-two-futures-cbi-april-2016-pdf/
[6] Independent, 18 April 2016; http://www.independent.co.uk/news/business/analysis-and-features/does-the-treasurys-brexit-equation-stand-up-to-scrutiny-a6989356.html
[7] Eurostat; http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tet00018&language=en
[8] ONS Pink book 2014; http://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/compendium/unitedkingdombalanceofpaymentsthepinkbook/2015-10-30/unitedkingdombalanceofpaymentsthepinkbook