

Brexit preparedness

Understanding Cornwall and the Isles of Scilly's international trade

Introduction

With this analysis Cornwall Council seeks to establish a better understanding of Cornwall and the Isles of Scilly (CIoS) trade patterns in order to prepare for a new UK/EU trade relationship that will follow Brexit.

The UK's future trade relationship with the EU is under intense negotiations, and much uncertainty surrounds it. The work outlined here analyses new trade data available for the first time at a CIoS footprint¹ and draws on existing regional and national research to identify the likely impact on CIoS of a new UK/EU trading relationship. Particular attention is given to a no-deal WTO scenario, not because this is the most likely outcome, but because preparing for that scenario will hold Cornish business in good stead for any future UK-EU trade relationship (see annexe A for an overview of the WTO scenario).

By developing a baseline understanding of Cornwall and Isles of Scilly's strengths, future opportunities and potential vulnerabilities in terms of trade, we hope to support individual businesses, business organisations, CIoS LEP, Cornwall Council and Isles of Scilly Council to better prepare for Brexit.

Summary and Key findings

- **CIoS exports significantly less than most other UK regions and improving our export performance is vital**
With exports accounting for 5.7% of the total economy this places CIoS as the third lowest NUTS 2 areas out of 40.



Improving export performance is important and reaffirms the key ambition within CIoS Vision2030 to increase the share of employment in

¹ Dataset and methodology is available from <https://www.uktradeinfo.com/Statistics/RTS/Pages/Analysis.aspx>

export intensive industries. Firms that export are more productive than firms that sell exclusively to the domestic market and this is a key part of increasing the overall productivity of CIOs.

There is significant scope for improving CIOs's export performance and therefore a strong case for continuing and potentially expanding on the local export promotion offer in order to address CIOs weak export performance.

Total CIOs exports were £539 million in 2016. Involved in exports were 743 CIOs businesses that exported to non-EU countries, which constitutes 2.7 % of CIOs's total business count, and 1,064 businesses that exported to EU countries (3.8% of total businesses)². As point of comparison, in neighbouring Devon 1,625 businesses (3.0% of total businesses) exported to non-EU countries and 2,200 businesses (4.0%) exported to EU-countries. Comparing to Cumbria, which similarly to Cornwall is a large rural county, shows that 738 businesses (2.6%) exported to non-EU countries and 921 businesses (3.3%) exported to EU-countries.



CIOs exports less than it imports and has a trade deficit of £70 million or 6.1% when calculated as a percentage of total trade. This compares to a UK trade deficit of 18.7% when calculated as a percentage of total trade. However CIOs has a trade surplus (£ 27 million) towards the EU, while the UK as a whole has a trade deficit (£ 92, 451) vis-à-vis the EU.

² The number of businesses that export to non-EU and EU countries cannot be summed as many businesses will be engaged in export to both non-EU and EU countries.

Brexit analysis

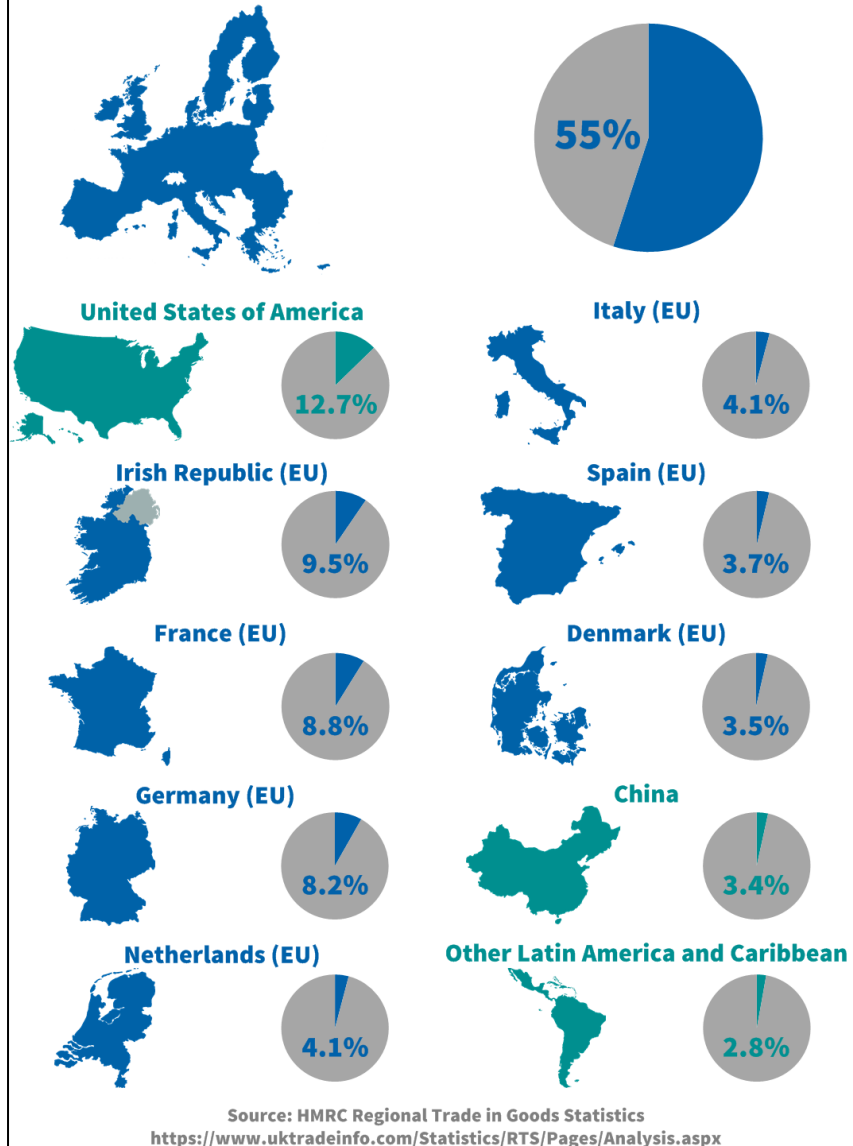
Our ambition to support more Cornish firms to export may be negatively impacted by Brexit as it is likely that it will become harder to access the EU market. This is particularly the case under a WTO scenario where both tariff and non-tariff barriers³ would be applied to UK exports to the EU market. Leaving the EU customs union opens up the possibility for the UK to negotiate better trade access to markets across the world than the current EU trade framework affords the UK. However, given that it is not unusual for Free Trade Agreement (FTA) negotiations to take 3-5 years, it is unlikely that the UK will be able to have alternative FTAs in place in the short run.

- **The EU is a key market for Cornwall and the Isles of Scilly and we are more dependent on access to the EU than the UK overall**
55% of total exports (£298 million) are destined for the EU market. While the US is the biggest single country destination with 12.7% (£68 million) of our exports going to this market, 7 of CIOs' 10 main export markets are in the EU. Of these Ireland is the most important with 9.5% (£51 million) of exports going to this market, followed by France, Germany, the Netherlands, Italy, Spain and Denmark.

³ Non-tariff barriers include health and safety checks, checks to establish compliance with standards, VAT clearance and rules of origin checks.

Cornwall and Isles of Scilly Main Export Trade Destinations 2016

European Union



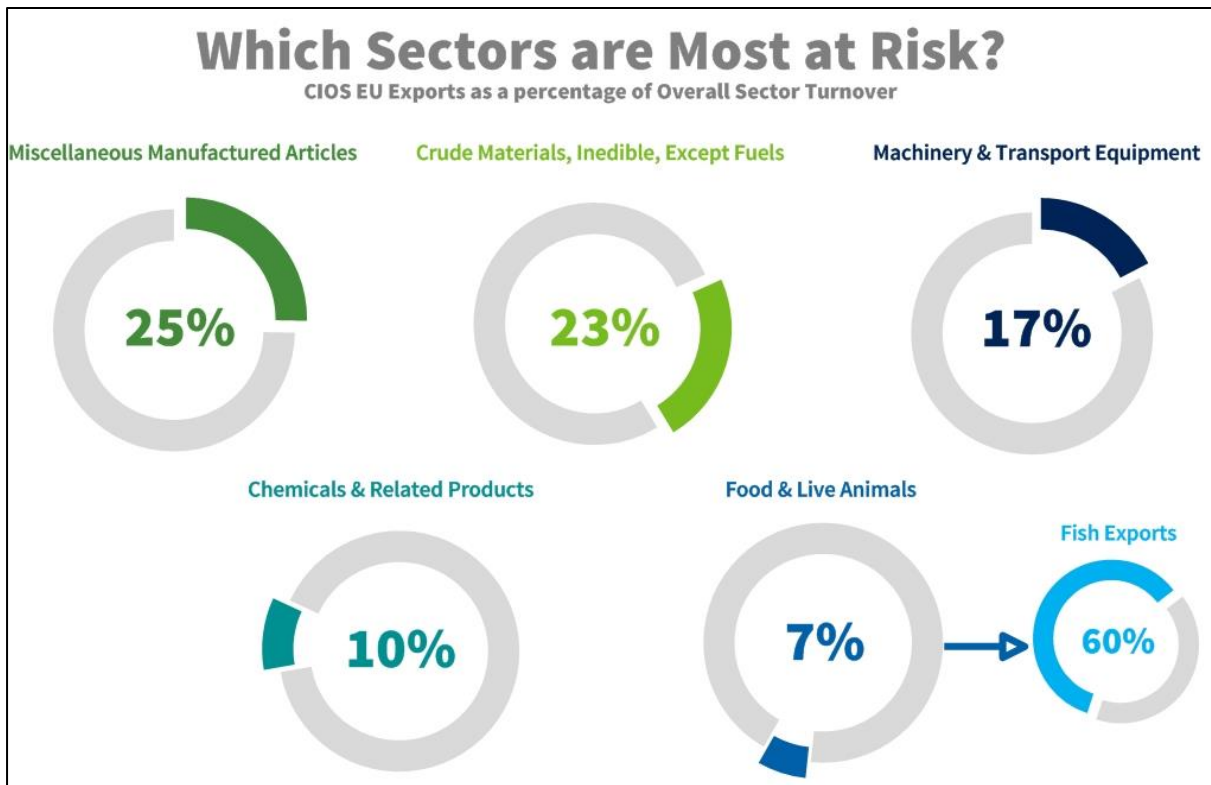
CIoS is more dependent on being able to sell our goods on the EU market than the UK overall. Of total UK exports 49.2% go to the EU market and 50.8% goes to non-EU countries. This is also the case for individual sectors. CIoS is more reliant on the EU than the UK overall for all sectors with the exception of 'machinery & transport equipment' where CIoS only exports 38% to the EU market compared to 43% of total UK exports in this sector going to the EU. The importance of this different export profile cannot be understated. Having a different export profile from the overall UK export profile means that we may have interests that are different to those pursued at a national level. This highlights the importance of ensuring that the UK pursues a trade policy that is sensitive to and informed by regional differences in trade patterns.

Brexit analysis

Cornish and Isles of Scilly businesses are currently more dependent on market access to the EU markets than is the case for overall UK trade. A move to trading with the EU based on WTO-rules would impact negatively on these businesses ability to sell their goods and services. Under this scenario EU tariffs would be imposed on CIOs exports to the EU making our products less competitive. In addition non-tariff barriers would cause costly delays in terms of bringing products to the EU market.

While all businesses will be impacted by a change to the UK/EU trading relationship, the firms likely to be most vulnerable are the ones currently only exporting to the EU or indeed businesses that don't trade internationally but are considering venturing into exporting. Businesses that already export to non-EU counties are likely to already have the skills and capacity to adapt to a new way of trading with the EU. In light of current uncertainty regarding the future UK/EU trading relationship it is recommended that all CIOs businesses make Brexit preparations –a useful [checklist](#) has been published by Cornwall Chamber of Commerce. Planning for a WTO scenario will hold CIOs businesses in good stead for all eventual UK/EU trade scenarios.

- **The Cornwall and Isles of Scilly sectors most vulnerable to changes to the UK/EU trading relationship have been identified**
By looking at exports to the EU as a share of total turnover we have been able to identify the sectors for which exports to the EU are most important and therefore are the sectors that would be most vulnerable to change:



While the importance of exports to the EU as a percentage of turnover for the 'food & live animals' sector overall is relatively low at 6.6%, there is significant variance within this sector, for example fish exports where it is estimated that of fish landed in 2017, £27.5 million or 59.5% was exported to EU countries.

Brexit analysis

The above identified sectors are likely to be most vulnerable to any significant change to the UK/EU trading relationship caused by Brexit as their export exposure to the EU market is highest. The data indicates that businesses within these sectors rely heavily on being able to sell their products on EU markets as an element of their business model.

Furthermore, the 'food and live animals' sector is estimated to be particularly hard hit by a WTO scenario⁴. This is due to higher EU tariffs on these products compared to other sectors and the perishable nature of produce within these sectors (e.g. fresh fish or vegetables) making any delays in getting products to market due to customs or regulatory checks particularly harmful. These sectors are also currently more dependent on access to EU labour than the UK economy in general and Cornwall Council commissioned research has shown that changes to access to EU labour markets could lead to multi-million pound losses for the Cornish and Isles of Scilly economy⁵.

- **The EU is an important import market for Cornwall and the Isles of Scilly with up to 80% of our imports sourced from the EU for some sectors**

Imports from the EU are significant with 44 % of CIOs imports originating from the EU. Total imports from the EU were worth £271 million in 2016 with the following import categories being what we spend most on: 'Food & live animals' £102 million (38%), 'Machinery & transport equipment' £57 million (21%) and 'Miscellaneous manufactured articles' £38 million (14%).

The EU is the biggest source for 'Food and live animals' with 80 % of these imports arriving from the EU, 'Beverages and tobacco' (78%) and 'Chemicals and related products' (63%).

While the main single country that CIOs sources its imports from is China (17.6%), 6 of 10 of its biggest import markets are EU countries with Germany being our biggest EU import market (10.8%) followed by Denmark (6.6%), the Netherlands (5.6%), France (4.9%), Italy (3.8%) and Ireland (3.1%).

⁴ ["The impact of Brexit on the processed food and drink sectors"](#), Business, Energy and Industrial Strategy Committee

⁵ Economic and Social Impacts of EEA Area workers in Cornwall and the Isles of Scilly [Link no longer available], Cornwall Council and the Cornwall and Isles of Scilly Local Enterprise Partnership, Research Report October 2017

There were 1,074 CIOs businesses that imported from non-EU countries, which constitutes 3.9 % of total CIOs's business count, and 1,785 businesses (6.4%) that imported from EU countries in 2016⁶. As point of comparison in neighbouring Devon 2,245 businesses (4.1%) imported from non-EU countries and 3,485 businesses (6.3%) imported from EU-countries. Comparing to Cumbria, which similarly to Cornwall is a large rural county, shows that 945 businesses (3.4%) imported from non-EU countries and 1,578 businesses (5.6%) imported from EU-countries.

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Any change to the UK/EU trade relationship that makes imports from EU countries more costly for Cornish businesses and consumers would have a negative impact on the CIOs economy. While import data is harder to interpret in terms of pinpointing which sectors are using imports as part of the supply-chain, and while we don't know the details of the future UK/EU trade relationship, we do know that the sectors that generally meet the highest tariffs under WTO-rules are sectors that are important to Cornwall. This includes the agri-food sector which accounts for 5.3% of CIOs GVA.

Conversely a scenario where the UK unilaterally decides to impose zero tariffs on imports would be beneficial for UK consumers and importers (who wouldn't be faced with higher prices due to import tariffs), but likely to detrimental to CIOs producers who would be competing for the UK market directly with e.g. agricultural imports from low wage countries such as Kenya.

⁶ The number of businesses that import from non-EU and EU countries cannot be summed as many businesses will be engaged in imports from both non-EU and EU countries.

Full trade data report

This section expands on the data on export and imports of goods from and to Cornwall and the Isles of Scilly. Most of the information is based on a UK trade info release of 2016 data. Where other data sources have been used, this is indicated.

Background to new HMRC data

In March 2018, HMRC released export data at the NUTS 2 level. The data is for 2016, but HMRC plan to release the 2017 data later in 2018. The data is classed as experimental statistics, part of a series of statistics that are in the testing phase and not yet fully developed. The statistics do not meet the rigorous quality standards of National Statistics yet.

This will therefore represent a partial picture of trade as it does not include services. Another important limitation is that certain allocations made in the Regional Trade in Goods Statistics (RTS) have not been allocated to areas smaller than NUTS1. These are Below Threshold Trade Allocations and Fixed Link Energy Allocations. The totals for NUTS 2 regions do not include these figures and the total trade figures for CIOs will therefore be an underestimate of total trade.

A previous exercise on exports was produced at LEP level in 2017 as a one off data exercise that the government produced for 2015 export data. The allocation method was different to that used for the most recently published RTS disaggregated by smaller geographical areas so it is not advisable to compare the two datasets across periods. The Growth Hub / LEP data was based on location of a business' Head Office whilst the RTS disaggregated by smaller geographical areas used the employee proportion method used in the regular quarterly RTS release.

What does the data tell us about international trade to and from Cornwall and the Isles of Scilly?

1. Trade balance

In 2016 exports of goods from Cornwall and the Isles of Scilly totalled £539 million, while imports amounted to £609 million. The CIOs trade deficit (£70 million) mirrors the UK trade deficit (£ 134,190 million) with total UK imports at £425,189 million exceeding total exports of £290,999 million, but as a % of total trade the CIOs trade deficit is smaller (6.1%) than the overall UK trade deficit (18.7%).

CIOs has a trade surplus (£ 27 million) vis-à-vis the EU, while the UK as a whole has a trade deficit (£ 92, 451) vis-à-vis the EU.

2. Exports

2.1 Value of our exports and what we export

In 2016, exports of goods from Cornwall and the Isles of Scilly totalled £539 million. This was 0.19 % of total UK exports which in 2016 stood at £290,999 million.

The largest export categories for CIoS were: 'Machinery & transport equipment' at £178 million; 'Crude materials, inedible, except fuels' at £115 million; 'Food & live animals' £81 million and 'miscellaneous manufactured articles' at £76 million.

Table 1.1: Goods exports £ million - 2016				
SITC Section ⁷		EU	Non-EU	Total
0	Food & live animals	73	8	81
1	Beverages & tobacco	2	-	2
2	Crude materials, inedible, except fuels	63	52	115
3	Mineral fuels, lubricants & related materials	1	-	1
4	Animal & vegetable oils, fats & waxes	-	-	-
5	Chemicals & related products	26	25	51
6	Manufactured goods classified chiefly by material	22	10	32
7	Machinery & transport equipment	67	111	178
8	Miscellaneous manufactured articles	41	35	76
9	Commodities/transactions not classified elsewhere	3	-	3
	Total	298	241	539

CIoS exported £298 million to the EU. Broken down by share, the figures show that 55% of CIoS exports went to EU countries and 45% to non-EU countries.

This represents a larger dependence on the EU market than compared to total UK exports where 49.2% go to the EU market and 50.8% goes to non-EU countries.

The share varies by sector as shown in table 1.2 below. Of the main categories, 90% of CIoS 'Food & live animals' exports went to the EU; 55% of 'Crude materials, inedible, except fuels'; 54% of 'Miscellaneous manufactured articles'; 51% of 'Chemicals & related products'; and 38% of 'Machinery & transport equipment' was exported to the EU.

Table 1.2: Goods exports % share – CIoS 2016				
SITC Section		EU	Non-EU	Total
0	Food & live animals	90	10	100
1	Beverages & tobacco	100		100
2	Crude materials, inedible, except fuels	55	45	100

⁷ Standard International Trade **Classification (SITC)** is a **classification** of goods used to classify the **exports** and imports of a country to enable comparing different countries and years. The **classification** system is maintained by the United Nations.

3	Mineral fuels, lubricants & related materials	100	-	100
4	Animal & vegetable oils, fats & waxes			-
5	Chemicals & related products	51	49	100
6	Manufactured goods classified chiefly by material	69	31	100
7	Machinery & transport equipment	38	62	100
8	Miscellaneous manufactured articles	54	46	100
9	Commodities/transactions not classified elsewhere	100	-	100
	Total	55	45	100

As shown in table 1.2b the reliance on the EU market by individual sectors differs from the overall UK picture with CIOs more dependent on the EU than the UK overall for all sectors with the exception of 'machinery & transport equipment' where CIOs only exports 38% to the EU market compared to 43% of total UK exports in this sector going to the EU.

Table 1.2b: Goods exports % share – UK total 2016				
SITC Section		EU	Non-EU	Total
0	Food & live animals	72.8	27.2	100
1	Beverages & tobacco	37.4	62.6	100
2	Crude materials, inedible, except fuels	42.8	57.2	100
3	Mineral fuels, lubricants & related materials	69.8	30.2	100
4	Animal & vegetable oils, fats & waxes	78.5	21.5	100
5	Chemicals & related products	50.2	49.8	100
6	Manufactured goods classified chiefly by material	54.9	45.1	100
7	Machinery & transport equipment	43.4	50.9	100
8	Miscellaneous manufactured articles	49.1	59.8	100
9	Commodities/transactions not classified elsewhere	40.2	51.8	100
	Total	48.2	50.8	100

As shown in table 1.3 below the main sectors exporting to the EU when viewed as a % of total CIOs exports were: 'Food & live animals' £73 million (24%); 'Machinery & transport equipment' £67 million (22%); and 'Crude materials, inedible, except fuels' £63 million (21%). The main component of non-EU trade is 'Machinery & transport equipment' at 46%.

Table 1.3: Goods exports % share by area - 2016				
SITC Section		EU	Non-EU	Total
0	Food & live animals	24	3	15
1	Beverages & tobacco	1	-	0
2	Crude materials, inedible, except fuels	21	22	21

3	Mineral fuels, lubricants & related materials	0	-	0
4	Animal & vegetable oils, fats & waxes	-	-	-
5	Chemicals & related products	9	10	9
6	Manufactured goods classified chiefly by material	7	4	6
7	Machinery & transport equipment	22	46	33
8	Miscellaneous manufactured articles	14	15	14
9	Commodities/transactions not classified elsewhere	1	-	1
	Total	100	100	100

2.2. Which countries we export to

The chart below shows those destinations where exports are £5 million or more. The biggest export market for CIOs is the USA at £68 million (12.7%), followed by the Irish Republic at £51 million (9.5%), France £47 million (8.8%), Germany £44 million (8.2%), then Italy £22 million, the Netherlands £22 million and Spain £20 million. However 7 of the 10 main export markets for CIOs are in the EU and seen as a one area the EU is by far CIOs's biggest export market.

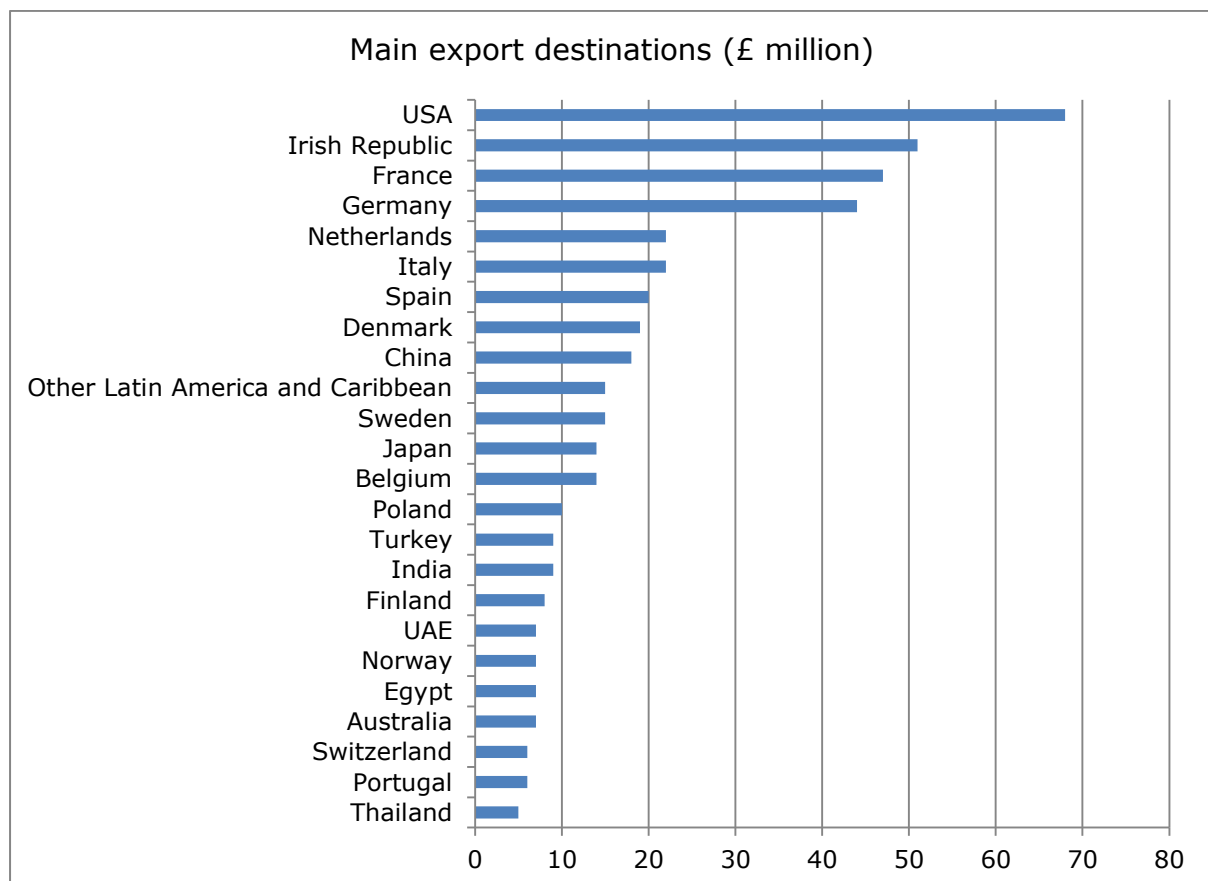


Table 1.4 shows exports to individual counties both as total value and as a share of total CIOs export.

Table 1.4: Goods exports – value and share - 2016			
EU / Non-EU	Partner Country	(£ million)	%
Non-EU	USA	68	12.7
EU	Irish Republic	51	9.5
EU	France	47	8.8
EU	Germany	44	8.2
EU	Italy	22	4.1
EU	Netherlands	22	4.1
EU	Spain	20	3.7
EU	Denmark	19	3.5
Non-EU	China	18	3.4
EU	Sweden	15	2.8
Non-EU	Other Latin America and Caribbean	15	2.8
EU	Belgium	14	2.6
Non-EU	Japan	14	2.6
EU	Poland	10	1.9
Non-EU	India	9	1.7
Non-EU	Turkey	9	1.7
EU	Finland	8	1.5
Non-EU	Australia	7	1.3
Non-EU	Egypt	7	1.3
Non-EU	Norway	7	1.3
Non-EU	UAE	7	1.3
EU	Portugal	6	1.1
Non-EU	Switzerland	6	1.1
Non-EU	Thailand	5	0.9

2.3 Number of businesses exporting to different countries

Table 1.5 lists the number of businesses exporting to each market. The figures cannot be summed as a business may export to more than one partner country. It is important to recognise that a considerable number of businesses are categorised as 'Below Threshold Traders' for which trade data is not available at NUTS 2 level. The top countries in terms of number of CIOs businesses exporting to these markets are: USA 408, Irish Republic 271; Germany 223, France 221, Spain 219, UAE 215, Netherlands 211, and Australia 203.

Table 1.5: Exports and businesses by destination			
EU / Non-EU	Partner Country	Statistical Value (£ million)	Business Count
EU	Below Threshold Traders	N/A	742
Non-EU	USA	68	408
EU	Irish Republic	51	271
EU	Germany	44	223
EU	France	47	221
EU	Spain	20	219
Non-EU	UAE	7	215

EU	Netherlands	22	211
Non-EU	Australia	7	203
Non-EU	Switzerland	6	193
Non-EU	Norway	7	189
EU	Belgium	14	179
Non-EU	Canada	4	178
EU	Italy	22	176
Non-EU	China	18	175
Non-EU	Hong Kong	4	172
EU	Sweden	15	167
Non-EU	Singapore	4	162
EU	Poland	10	157
EU	Denmark	19	155
Non-EU	South Africa	4	146
Non-EU	Japan	14	145
Non-EU	India	9	143
Non-EU	Turkey	9	134
EU	Portugal	6	133
EU	Czech Republic	2	132
EU	Austria	3	127
Non-EU	New Zealand	2	119
EU	Finland	8	118
EU	Greece	1	112
EU	Cyprus	1	105
EU	Hungary	2	105
Non-EU	South Korea	4	104
Non-EU	Other Latin America and Caribbean	15	101

Overall the HMRC data suggests that in 2016 there were 743 CIOs businesses that exported to non-EU countries, which constitutes 2.7 % of CIOs's total business count, and 1,064 businesses that exported to EU countries (3.8% of total businesses)⁸. As point of comparison, in neighbouring Devon 1,625 businesses (3.0% of total businesses) exported to non-EU countries and 2,200 businesses (4.0%) exported to EU-countries. Comparing to Cumbria, which similarly to Cornwall is a large rural county, shows that 738 businesses (2.6%) exported to non-EU countries and 921 businesses (3.3%) exported to EU-countries.

The total business count for each of the 3 regions is based on workplace/local unit data for 2016:

UKK3 Cornwall and Isles of Scilly	27,870
UKD1 Cumbria	28,065

⁸ The number of businesses that export to non-EU and EU countries cannot be summed as many businesses will be engaged in export to both non-EU and EU countries.

UKK4 Devon	55,015
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Source: ONS/NOMIS, UK Business Counts.

From a different, but limited⁹, HMRC dataset¹⁰ on exports to non-EU countries we have further detail about what our businesses export and how export businesses are spread across constituency areas within CIOs. Table 1.6 below shows that non-EU export businesses are distributed fairly evenly across CIOs constituencies with the largest proportion in the St Austell and Newquay constituency. The dataset also shows that the 3 main categories which most CIOs businesses export are 1) 'Machinery, mechanical appliances, nuclear reactors, boilers; and parts thereof' 2) 'Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof' and 3) 'Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles'.

Table 1.6 Distribution of non-EU export businesses, CIOs Parliamentary Constituency		
Constituency	Number of Businesses	% of Export Businesses
Total	135	100.00%
North Cornwall	27	20.00%
St Austell and Newquay	29	21.48%
South East Cornwall	21	15.56%
Camborne and Redruth	20	14.81%
Truro and Falmouth	18	13.33%
St Ives	20	14.81%

⁹ Key caveats in relation to this dataset are that it only covers non-EU exports and that businesses can request not to be included in it. The total number of exporting businesses is significantly less than the actual number of CIOs businesses who export.

¹⁰ Dataset available from <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8293#fullreport>

3. Imports

3.1 Value of our imports and what we import

In 2016 total imports into Cornwall & the Isles of Scilly were worth £609 million. This accounts for 0.14% of total UK imports which in 2016 was £425,189 million.

Of CIoS total imports £271 million (44%) was from EU countries and £338 million (56%) from non-EU countries.

The main types of imports in terms of overall value were: 'Miscellaneous manufactured articles' £183 million (30%); 'Machinery & transport equipment' £138 million (23%); and 'Food & live animals' £128 million (21%).

Broken down by share (excluding minor components), the EU was the biggest source for 'Food & live animals' (80%), and 'Chemicals & related products' (63%). Non-EU countries were the biggest sources for 'Manufactured goods classified chiefly by material' (79%), 'Manufactured goods classified chiefly by material' (69%), and 'Machinery & transport equipment' (59%).

Table 1.7: Goods imports value and share - 2016

SITC Section		Value in £ million			% share of total sector imports		
		EU	Non-EU	Total	EU	Non-EU	Total
0	Food & live animals	102	26	128	80	20	100
1	Beverages & tobacco	14	4	18	78	22	100
2	Crude materials, inedible, except fuels	9	3	12	75	25	100
3	Mineral fuels, lubricants & related materials	1	-	1	100	0	100
4	Animal & vegetable oils, fats & waxes	1	-	1	100	0	-
5	Chemicals & related products	17	10	27	63	37	100
6	Manufactured goods classified chiefly by material	31	69	100	31	69	100
7	Machinery & transport equipment	57	81	138	41	59	100
8	Miscellaneous manufactured articles	38	145	183	21	79	100
9	Commodities/transactions not classified elsewhere	1	-	1	100	0	100
	Total	271	338	609	44	56	100

As shown in table 1.8 when imports are broken down by EU and non-EU source, 'Food & live animals' made up 38% of imports from the EU, followed by 'Machinery & transport equipment' at 21%. Main imports from non-EU countries were 'Miscellaneous manufactured articles' at 43%, then 'Machinery & transport

equipment' at 24% and 'Manufactured goods classified chiefly by material' at 20%.

Table 1.8: Goods imports % share of total EU and non-EU export – 2016				
SITC Section		EU	Non-EU	Total
0	Food & live animals	38	8	21
1	Beverages & tobacco	5	1	3
2	Crude materials, inedible, except fuels	3	1	2
3	Mineral fuels, lubricants & related materials	0	0	0
4	Animal & vegetable oils, fats & waxes	0	0	0
5	Chemicals & related products	6	3	4
6	Manufactured goods classified chiefly by material	11	20	16
7	Machinery & transport equipment	21	24	23
8	Miscellaneous manufactured articles	14	43	30
9	Commodities/transactions not classified elsewhere	0	0	0
	Total	100	100	100

3.2 Countries we import from

Table 1.9 shows the main partner countries in terms of the value of imports. These 16 countries, where imports were worth over £10 million, accounted for £496 million or 81% of total imports. CIOs's main import market was China with £107 million (17.6%), followed by Germany £66 million (10.8%), USA £41 million (6.7%), and Denmark £40 million (6.6%). 6 out of CIOs's 10 biggest import markets are EU countries.

Table 1.9: Goods Imports - value by partner countries - 2016			
EU or Non-EU	Country	Value (£ million)	% share
Non-EU	China	107	17.6
EU	Germany	66	10.8
Non-EU	USA	41	6.7
EU	Denmark	40	6.6
EU	Netherlands	34	5.6
EU	France	30	4.9
Non-EU	Gibraltar	26	4.3
EU	Italy	23	3.8
EU	Irish Republic	19	3.1
Non-EU	India	19	3.1
Non-EU	Turkey	19	3.1
EU	Belgium	16	2.6
EU	Spain	16	2.6
Non-EU	Vietnam	14	2.3
Non-EU	Hong Kong	13	2.1
Non-EU	UAE	13	2.1

3.3 Number of businesses that import from different countries

Table 1.10 lists the number of businesses importing from each market. The figures cannot be summed as a business may import from more than one partner country. It is important to recognise that a considerable number of businesses are categorised as 'Below Threshold Traders' for which trade data is not available at NUTS 2 level. The top countries in terms of import traders are: USA 562, China 497; Hong Kong 306, India 239, Germany 235, the Netherlands 221, France 200, and Italy 197.

Table 1.10 Imports and businesses by destination			
EU/non-EU	Partner country	Statistical value (£ million)	Business count
EU	Below Threshold Traders	N/A	1519
Non-EU	USA	41	562
Non-EU	China	107	497
Non-EU	Hong Kong	13	306
Non-EU	India	19	239
EU	Germany	66	235
EU	Netherlands	34	221
EU	France	30	200
EU	Italy	23	197
EU	Belgium	16	193
EU	Irish Republic	19	185
EU	Spain	16	176
Non-EU	Turkey	19	163
Non-EU	Taiwan	7	158
Non-EU	Canada	4	157
EU	Denmark	40	144
Non-EU	Switzerland	4	129
Non-EU	Australia	1	125
Non-EU	Vietnam	14	123
Non-EU	Thailand	6	119
EU	Sweden	6	113
EU	Poland	6	111
EU	Portugal	3	111
EU	Austria	2	110
Non-EU	Norway	1	103
Non-EU	Other Asia and Oceania	5	99
Non-EU	Japan	3	97
Non-EU	South Korea	1	93
Non-EU	South Africa	3	89

Non-EU	Singapore	1	86
Non-EU	UAE	13	85
EU	Czech Republic	1	80
Non-EU	Indonesia	2	75
Non-EU	Israel	1	75
Non-EU	Malaysia	2	69
EU	Finland	1	68
Non-EU	Pakistan	3	65
Non-EU	New Zealand	4	57
EU	Hungary	1	56
Non-EU	Brazil	3	56
Non-EU	Bangladesh	9	55
EU	Greece	1	48
Non-EU	Sri Lanka	7	46
EU	Romania	1	41
Non-EU	Egypt	1	39
EU	Slovakia	1	38
EU	Luxembourg	2	37
EU	Latvia	1	29
Non-EU	Other Sub-Saharan Africa	1	28
Non-EU	Chile	2	23
Non-EU	Russia	1	18
Non-EU	Serbia	2	12
Non-EU	Uruguay	6	10
Non-EU	Gibraltar	26	5

Overall the HMRC data suggest that there are 1,074 CIoS businesses that import from non-EU countries, which constitutes 3.9 % of total CIoS's business count, and 1,785 businesses (6.4%) that import from EU countries. As point of comparison in neighbouring Devon 2,245 businesses (4.1%) imported from non-EU countries and 3,485 businesses (6.3%) imported from EU-countries. Comparing to Cumbria, which similarly to Cornwall is a large rural county, shows that 945 businesses (3.4%) imported from non-EU countries and 1,578 businesses (5.6%) imported from EU-countries.

From a different, but limited¹¹, HMRC dataset¹² on imports from non-EU countries we have further detail about what our businesses import and how import businesses are spread across constituency areas within CIoS. Table 1.11 below shows that non-EU import businesses are distributed fairly evenly across

¹¹ A key caveat in relation to this dataset is that businesses can request not to be included in it. The total number of exporting businesses is significantly less than the actual number of CIoS businesses who export.

¹² Dataset available from <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8293#fullreport>

CIoS constituencies with the largest proportion in North Cornwall constituency. The dataset also shows that the 3 categories which most CIoS businesses import are 1) 'Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles' 2) 'Machinery, mechanical appliances, nuclear reactors, boilers; and parts thereof' and 3) 'Articles of apparel and clothing accessories, knitted or crocheted'.

Table 1.11 Distribution of non-EU import businesses, CIoS Parliamentary Constituency		
Constituency	Number of Businesses	% of Export Businesses
Total	206	100.00%
North Cornwall	45	21.84%
St Austell and Newquay	43	20.87%
South East Cornwall	35	16.99%
Camborne and Redruth	34	16.50%
Truro and Falmouth	28	13.59%
St Ives	21	10.19%

4. How important is trade for our economy?

4.1 Exports as share of turnover

Although the export figures are important they do not necessarily indicate how vulnerable the sector would be to changes in the market post-Brexit. To examine this requires looking at exports to the EU as a share of total sales or turnover.

Methodology

Allocate GVA to each SITC group; this can be tricky as the categories do not always align.

Calculate ratios between turnover and AGVA from the Annual Business Survey at a South West regional level.

Use ratios to estimate turnover for sectors in Cornwall.

Calculated exports as a share of estimated turnover.

Results

Using this methodology results in figures which are indicative in terms of how important exports, particularly to the EU, are to each sector.

The sectors which are most dependent on exports are: 'Miscellaneous manufactured articles' 47%; 'Machinery & transport equipment' 46.2%, and 'Crude materials, inedible, except fuels' 41.9%.

The figures suggest that the most vulnerable sectors in relation to the EU are: Miscellaneous manufactured articles (25.3%); Crude materials, inedible, except fuels – includes china clay (23%); and, Machinery & transport equipment (17.4%).

While the importance of exports to the EU as a percentage of turnover for the 'Food & live animals' sector overall is relatively low at 6.6%, there is significant variance within this sector, for example fish exports where it is estimated that of fish landed in 2017, £27.5 million or 59.5% was exported to EU countries.

Table 1.10: Exports as share of turnover

	EU	Non-EU	All	EU	Non-EU	All
SITC sector	£m	£m	£m	%	%	%
Food & live animals	73	8	81	6.6	0.7	7.4
Beverages & tobacco	2	-	2	2.1		2.1
Crude materials, inedible, except fuels	63	52	115	23.0	19.0	41.9
Chemicals & related products	26	25	51	9.7	9.3	19.0
Manufactured goods classified chiefly by material	22	10	32	7.3	3.3	10.6
Machinery & transport equipment	67	111	178	17.4	28.8	46.2
Miscellaneous manufactured articles	41	35	76	25.3	21.6	47.0

Fisheries

Exports of fish are included within the 'Food & live animals' element of exported goods. Exact details of fish exports from Cornwall are unknown; however it is possible to estimate the figures.

Methodology

Work on basis of 80% of landings exported.

Use most recent figures of breakdown of export destination by species.

Use 2017 landings data for Cornwall and Isles of Scilly and export ratios to calculate figures.

Results

Fish landings in 2017 equalled £46.1 million. Of this it is estimated that £27.5 million or 59.5% was exported to EU countries.

4.2 Importance of goods exports to the CIoS economy compared to other NUTS 2 areas

Analysis of exports at NUTS 2 level in relation to GVA¹³ shows that of the 40 NUTS 2 regions in the UK, Cornwall and the Isles of Scilly had the third lowest figure at 5.7% for total exports. Exports to the EU at 3.1% ranked Cornwall and the Isles of Scilly 38th of the 40 NUTS 2 regions.

Table 1.11: Exports as % of GVA by NUTS 2 region			
NUTS 2	EU	Non-EU	Total
East Wales	21.2	6.5	27.7
North Eastern Scotland	6.0	20.8	26.7
Cheshire	12.4	13.9	26.3
West Midlands	9.7	16.4	26.1
Northumberland and Tyne and Wear	15.9	10.0	25.9
East Yorkshire and Northern Lincolnshire	13.7	10.8	24.5
Herefordshire, Worcestershire and Warwickshire	9.4	13.4	22.9
Derbyshire and Nottinghamshire	10.8	11.7	22.5
Bedfordshire and Hertfordshire	12.9	8.6	21.4
West Wales and The Valleys	9.2	12.2	21.4
Northern Ireland	11.2	9.8	21.0
Merseyside	7.5	12.3	19.8
Tees Valley and Durham	11.5	8.1	19.6
Hampshire and Isle of Wight	7.8	10.0	17.8
Shropshire and Staffordshire	10.3	7.1	17.4
Lancashire	7.7	9.5	17.2
Gloucestershire, Wiltshire and Bristol/Bath area	7.3	9.6	16.9
East Anglia	7.2	9.0	16.2
Berkshire, Buckinghamshire and Oxfordshire	8.8	7.3	16.1
Surrey, East and West Sussex	7.3	8.5	15.8
Highlands and Islands	5.9	9.5	15.5
Cumbria	6.2	8.8	15.0

¹³ A rough and ready way of assessing the importance of exports. Turnover would be the best variable to use.

Leicestershire, Rutland and Northamptonshire	7.3	6.4	13.7
South Western Scotland	5.4	8.3	13.6
Dorset and Somerset	4.7	8.7	13.4
Essex	5.3	7.6	12.9
Eastern Scotland	5.8	6.7	12.5
South Yorkshire	6.8	5.1	11.9
Outer London - West and North West	4.0	6.9	10.9
West Yorkshire	5.6	5.2	10.8
Greater Manchester	5.8	4.2	10.0
Lincolnshire	5.4	4.5	10.0
Inner London - West	3.4	5.3	8.7
Kent	4.4	4.1	8.5
Devon	4.3	4.0	8.3
North Yorkshire	4.9	3.3	8.2
Outer London - East and North East	3.2	2.8	6.0
Cornwall and Isles of Scilly	3.1	2.6	5.7
Outer London - South	2.8	1.9	4.7
Inner London - East	1.9	2.6	4.5

4.3 Other data

Analysis by Oxford Economics¹⁴ indicated that in 2014, exports of goods and services from Cornwall represented 14.3% of GVA. This compares to an England average of 30.3% and ranked Cornwall bottom out of 37 of County and Unitary Authorities.

¹⁴Oxford Economics, Understanding County Economies: Analysis to inform the industrial strategy and the devolution debate, a report for the county councils network, July 2017

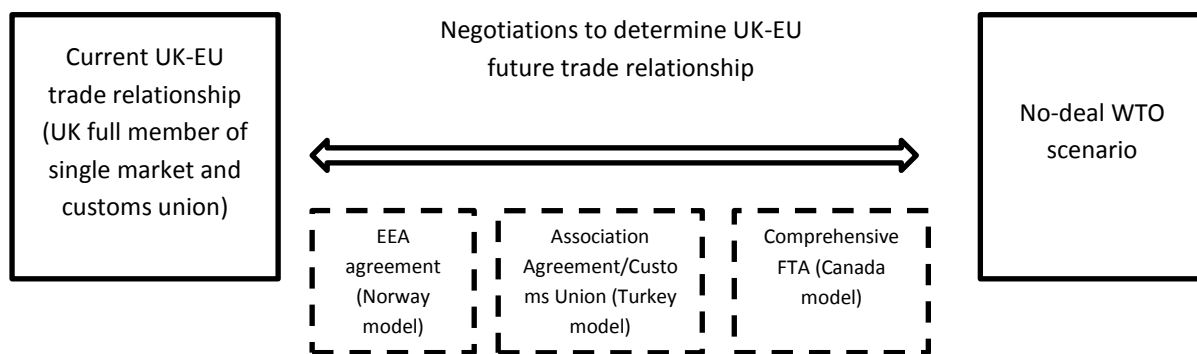
Annexe A:

A “no-deal” WTO scenario

The UK’s future trade relationship with the EU is under intense negotiations. While it is difficult to predict what the exact outcome of these negotiations will be, we know that the future trade relationship will land somewhere in between the current situation where the UK as a full EU member is part of the EU single market and the customs union and the no-deal scenario where trade relations between the UK and the EU will be governed by World Trade Organisation (WTO) rules.

This note outlines what a no-deal WTO scenario would entail, not because this is the most likely outcome, but as a way of setting the outer perimeters within which the future UK-EU trade relationship will land (see figure 1).

Figure 1: illustration of options for future UK-EU trade relationship



WTO scenario and implications for the UK economy

If no deal is reached on the future UK-EU trade relationship WTO rules will apply by default from the end of March 2019 when the UK exits the EU. At the core of WTO rules is the ‘most favoured nation’ (MFN) principle, which obliges a country/trading block to grant the same access to all WTO member countries as they grant to their most favoured nation. The only exception to the MFN principle is to enter into a Free Trade Agreement (FTA) with another country or trading block¹⁵.

This would mean that the EU will need to treat imports from the UK in the same way it treats imports from other third countries such as the US, and subject UK goods and services to the same customs checks, tariffs and regulatory barriers that the EU currently charge on trade with other countries with which it does not have a FTA with. The UK would similarly be able to impose tariffs on imports to

¹⁵ There are exceptions for the world's least developed and developing countries, but these are not relevant to the UK.

the UK. The UK would need to treat imports from the EU in the same way it treats imports from other third countries.

The average EU tariff rate is low - around 1.5% -however, tariffs on individual goods and sectors vary significantly and the impacts for some sectors would be much larger¹⁶. For example the processed food and beverage sector would face significant tariffs:

Box 1: The EU's Most Favoured Nation tariffs on processed food and drink imports to the EU¹⁷:

- animal products is 16 per cent on average, with peaks for individual products at 104 percent;
- dairy products is 35 per cent on average, with peaks at 96 per cent;
- sugars and confectionery is 24 per cent on average with peaks at 127 per cent;
- beverages and tobacco is 20 per cent on average with peaks at 152 per cent.

In addition to tariffs UK exports to the EU would also face non-tariff barriers such as regulatory and custom checks. Tariff and non-tariff barriers will increase costs for UK businesses that export as well as for businesses that import components as part of their production process. UK business may also incur additional costs if access to EU-labour is restricted and it becomes harder for them to recruit to fill vacancies and attract skills. UK consumers will experience price increases as UK business pass on these higher costs to consumers and as imported goods from the EU will become more expensive if the UK chooses to introduce import tariffs.

Outside of the EU customs union the UK will have greater flexibility to enter into FTAs with third countries. This opens up the possibility for the UK to negotiate better trade access to markets across the world than the current EU trade framework affords the UK. However, given that it is not unusual for FTA negotiations to take 3-5 years¹⁸, it is unlikely that the UK will be able to have alternative FTAs in place by the end of the transition period. On the 1st January 2021 when the transition period comes to a close the UK will cease to be party to the FTAs that the EU currently has with a number of countries (Canada, South Korea, Japan, etc.¹⁹) and while it will be relatively uncomplicated for the UK to

¹⁶ Brexit factsheet: "[No Deal: the WTO option](#)", The UK in a changing Europe

¹⁷ "[The impact of Brexit on the processed food and drink sectors](#)", Business, Energy and Industrial Strategy Committee

¹⁸ As an example the negotiations re. the EU's latest successful FTA with Canada started in in 2009 and were only concluded in February 2016.

¹⁹ See full list of EU trade agreements with third countries here: <http://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>

'grandfather' these FTAs this would simply replicate existing EU market access to these counties.

Various research institutions and government departments have analysed the economic impact of a non-deal scenario for the UK economy. While their estimates of impact vary, there is near consensus that moving from trading with the EU as a Member State to trading with the EU on WTO terms would have a significant negative impact on the UK economy²⁰.

The Centre for Economic Performance estimates that a "No Deal WTO rules only" scenario would reduce the UK's trade with the EU by 40% over ten years²¹. This reduced trade would mean a fall in income per head of 2.6% per year (net of the savings from no membership fees). There would also be longer-term negative effects from lower investment and slower productivity growth, which are estimated to be another 3.5% of GDP. Adopting a policy of unilateral free trade would mitigate part of these costs. But the savings from unilateral tariff cuts are estimated to be just 0.35% of GDP. The short-term disruption resulting from the sudden imposition of these WTO rules could exacerbate these negative effects²².

The UK Treasury analysis of the long-run consequences of leaving the EU for the UK economy suggests that after 15 years, the UK is estimated to be between 5.4% and 9.5% of GDP better off inside the EU than adopting WTO rules. In 2015 terms, leaving the EU and relying on the WTO rules would mean a long-term loss of GDP of £5,200 a year for each household in the UK²³.

There is a general consensus that the economic impact of a no-deal scenario for the UK economy i.e. moving from trading with the EU as a Member State to trading with the EU on WTO terms would be significant and negative. Analysis of which sectors would be impacted the most at a UK-wide level tends to point towards **vehicles, food and agricultural industries** as the main losers due to high tariff and high export volumes²⁴. Other research shows that while high-skilled industries and areas will be impacted the most in the short term, these areas will also have better adaptation potential, and **lower-skilled sectors and areas in the long term will struggle the most in terms of adapting** to the new trade framework between the UK and the EU²⁵.

²⁰ ["The future UK-EU relationship"](#), House of Commons Exiting the European Union Committee,

²¹ The Costs and Benefits of Leaving the EU: Trade Effects, [CEP Discussion Paper No 1478, April 2017](#)

²² Brexit factsheet: ["No Deal: the WTO option"](#), The UK in a changing Europe

²³ [UK Treasury analysis of the long-run consequences of leaving the European Union \(EU\) for the UK economy 2016](#)

²⁴ CIVITAS, Potential post-Brexit tariff costs for EU-UK trade, October 2016

²⁵ [Brexit, trade and the economic impacts on UK cities](#), Naomi Clayton and Professor Henry G. Overman July 2017